

Press Release
ARNOTHAYA MILLS
October 25, 2023



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.12	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	39.88	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	54.00	-	-

Rating Rationale

ACUITE has upgraded the long-term ratings to 'ACUITE BB+' (read as ACUITE BB plus) from ACUITE BB- (read as ACUITE BB minus) for the Rs. 39.88 crore bank facilities of Arnothaya Mills (AM). The outlook is 'Stable'.

ACUITE has assigned the long-term ratings of 'ACUITE BB+' (read as ACUITE BB plus) for the Rs. 14.12 crore bank facilities of Arnothaya Mills (AM). The outlook is 'Stable'.

Rationale for rating

The rating factors the stable operating performance of the firm in FY2023 (prov). The firm recorded operating income of Rs.196.60 crore in FY2023 (prov) as against Rs.195.46 Cr in FY2022. The operating margins improved slightly to 5.92 percent in FY2023 (prov) from 5.18 percent in FY2022 in spite of the fluctuation in cotton prices. The rating also draws comfort from the experienced management, moderate financial risk profile and adequate liquidity position of the firm. The rating however, remains constrained on account of working capital intensive operations and susceptibility of profitability margins to changes in raw material prices.

About the Company

Arnothaya Mills (AM) established in 1992 is a Tamil Nadu based partnership firm engaged in the manufacturing of grey cloth. The firm is led by Mr. R A Muthukumaraswamy, Mr. R. Periyasamy, Mr. R. Gopal, Mr. M. Kamalam, partners who has more than three decades of experience in the textile industry and Mr. A.M Tamil Selvan partner who has 15 years of experience in the textile industry. The firm procures Rayon yarn from local market and has its own loom machines for the manufacturing of Cotton Yarn. AM sells the manufactured grey fabric in the markets of Tirupur, Mumbai, Jaipur, and Ahmedabad. The grey fabric is majorly gets exported to African states. The production capacity of AM is 65000000 units per year.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Arnothaya Mills (AM) to arrive at this rating.

Key Rating Drivers

Strengths

Established track record of operations with experienced management and stable operating performance.

AM has been operational since 1992, in manufacturing of grey cloth which finds its major end use in household textile products. Mr. Muthukumaraswamy, the managing partner of

Arnothaya Mills has more than three decades of experience in the textile industry operations. The AM sells the manufactured grey fabric in the markets of Tirupur, Mumbai, Jaipur, and Ahmedabad, gets exported to African states.

AM's reported revenue of Rs.196.60 Cr in FY2023 (prov) as against 195.46 Cr in FY2022. The muted growth in FY2023 is majorly due to the labour strikes in the month of January and February. the firm has achieved capacity utilisation of 87.85 percent in FY2023. The operating margin of the firm stood at 5.92 percent in FY2023 (prov) as against 5.18 percent in FY2022. and Net Margin improved and stood at 1.99 percent in FY2023 (prov) as against 0.95 percent in FY2022. The firm has reported revenue of Rs.46.45 Cr in Q1FY2024.

Acuité believes that AM will continue to benefit from the promoter's established presence in the textile industry and its improving business risk profile over the medium term.

Moderate financial risk profile

AM's financial risk profile continues to be moderate over the past three years through FY2023 reflected by moderate gearing (debt-to-equity), average net-worth and comfortable debt protection metrics. The gearing ratio stood moderate at 1.18 times as on March 31, 2023 (prov) against 1.10 times as on March 31, 2022. Tangible net worth of the firm stood moderate at Rs.46.04 crore as on March 31, 2023 (prov) against Rs.52.12 crore as on March 31, 2022. The partners have withdrawn capital of Rs.9.00 Cr during the year FY2023. Of the total debt of Rs.54.27 crore as on March 31, 2022 (prov), long term debt stood at Rs.12.02 crore, short-term debt stood at Rs.35.89 crore, unsecured loan from directors of Rs.2.38 crore and CPLTD stood at Rs.3.98 crore. TOL/TNW stood at 1.22 times as on March 31, 2023 (prov) against 1.14 times as on March 31, 2022. Debt protection metrics stood at comfortable; Interest Coverage Ratio (ICR) and Net Cash Accruals to Total Debt (NCA/TD) stood at 2.30 times and 0.12 times respectively in FY2023 (prov); while DSCR stood at 1.26 times in FY2023 (prov). Acuite believes AM's financial risk profile will continue to be moderate in the medium term on the account of stable operating performances.

Weaknesses

Working capital intensive operations

AM's working capital operations have improved but are still intensive, as reflected in its high gross current assets (GCA) of 151 days as on 31, March 2023 (prov) against 159 days as on March 31, 2022. The inventory days stood at 119 days as on March 31, 2023 (prov) against 130 days as on March 31, 2022. The company's inventory holding policy depends on next season's expectations / visibility for the next 6 months' / order book position. The debtors' days stood low at 36 days as on March 31, 2023 (prov) against 33 days as on March 31, 2022. The creditors' days stood low of 4-6 days for the last three years ended as on March 31, 2023 (prov). The high GCA and seasonal availability of cotton resulted in high utilization of bank lines at about 97.02 per cent for last 12 months ended July, 2023. constraining the financial flexibility. ACUTE believes that AM's working capital operations being agri-related would continue to be intensive over the medium term.

Susceptible to changes in raw material prices

The operating margins are susceptible to changes in cotton and yarn prices which are highly volatile and commoditized product. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain.

Rating Sensitivities

- Substantial improvement in the scale of operation, while maintaining the profitability margin.
- Any substantial capital withdrawal leading to deterioration in financial risk profile.
- Improvement in the working capital management leading to improvement in the overall liquidity position

All Covenants

None

Liquidity Position: Adequate

AM has adequate liquidity as reflected by sufficient net cash accruals to its maturing debt obligations albeit high utilization of fund based working capital limits. AM generated cash accruals of Rs.6.59 crore in FY2023 (prov), while its maturing debt obligations stood of Rs.4.16 crore during the same period. The cash accruals of the AM's are estimated to remain around Rs.8.25 -11.97 crore during 2024-26, while its repayment obligations are estimated to be around Rs.3.98 -3.01 crore over the same period. The current ratio stood moderate, stood at 2.04 times ended with March 31, 2023 (prov). Unencumbered cash and bank balances stood at Rs.0.13 crore as on March 31, 2023 (prov). The fund based limits remains highly utilized at an average of 97.02 percent for last 12 months ended July, 2023. Acuité believes that the liquidity position of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against its debt repayments obligation over the medium term.

Outlook: Stable

ACUITÉ believes the outlook on AM's rated facilities will remain 'Stable' over the medium term on account of the long track record of operations and experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues, while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, or registers lower than expected revenues and profitability or larger than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	196.60	195.46
PAT	Rs. Cr.	3.92	1.86
PAT Margin	(%)	1.99	0.95
Total Debt/Tangible Net Worth	Times	1.18	1.10
PBDIT/Interest	Times	2.30	1.88

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Apr 2023	Term Loan	Long Term	11.00	ACUITE BB- (Issuer not co-operating*)
	Cash Credit	Long Term	26.00	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	2.88	ACUITE BB- (Issuer not co-operating*)
11 Jan 2022	Term Loan	Long Term	2.88	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	11.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	26.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
08 Oct 2020	Term Loan	Long Term	2.88	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	11.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	26.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	10.13	ACUITE A4+ (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE BB+ Stable Upgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE BB+ Stable Assigned
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	6.23	ACUITE BB+ Stable Upgraded
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.11	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.01	ACUITE BB+ Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.65	ACUITE BB+ Stable Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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