

Press Release

A P A Textiles India Private Limited

August 16, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.97 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) on the Rs. 6.97 crore bank facilities of A P A Textiles India Private Limited. The outlook is '**Stable**'.

A P A Textiles India Private Limited (APA Textiles), a partnership firm established in 1981 is engaged in the manufacgturing of grey cloth. The company is led by Mr. Ammasaiappagounder Palanisamy, his wife Ms. Saraswathy Palanisamy and Mr. Dhanasekar Palanisamy. The company procures raw cotton, converts it into cotton yarn and manufactures grey cloth through third parties. Grey cloth is used in the manufacture of home textile items including bed sheets, made ups etc. The spinning unit is located at Coimbatore with installed capacity of 12,000 spindles.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoters**

The company has been in the textile industry for more than three decades and has established long term relations with customer and suppliers. The promoters collectively possess more than three decades of experience in the textile industry.

- **Moderate financial riskprofile**

The financial risk profile is moderate marked by tangible networth of Rs. 4.20 crore as on 31 March, 2016 as against Rs.3.86 crore in the previous year. The gearing stood at 1.49 times as on 31 March, 2016 as against 1.93 times in the previous year. The interest coverage ratio and debt service coverage ratio stood at 2.67 times and 1.26 times respectively for FY2016. The total liabilities to tangible net worth (TOL/TNW) stood at 1.85 times as on 31 March, 2016 as against 2.27 times in the previous year. Further, the company has purchased new machinery worth Rs. 2.20 crore in January, 2017 which was funded through term loan of Rs. 1.44 crore and the balance through own funds. Going forward, SMERA expects the company to maintain its financial risk profile in the absence of major debt funded capex plan.

- **Efficient working capitalmanagement**

The company has an efficient working capital management. The working capital cycle stood at 67 days for FY2016 as against 76 in the previous year. The company realises its receivable within 40 days and maintains an average inventory of 40 to 60 days and makes payments to its suppliers within 10 to 20 days. Further, the liquidity position of the company is comfortable with average cash credit limit utilisation of 76.25 percent for the last six months ended April 30, 2017.

Weaknesses

- **Modest scale ofoperations**

The operations are at a modest level in spite of being in the industry for over two decades. The operating income stood at Rs. 23.95 core in FY2015-16 compared to Rs. 27.53 crore in the previous

year. The decline in revenue is on account of slowdown in orders. APAIPL reported operating revenue of Rs. 30.16 crore (Provisional) for FY2017. Going forward, SMERA expects the revenue to grow moderately owing to improvement in orders.

• Susceptibility of profitability to volatility in commodity prices

The major raw material procured by the company is raw cotton and cotton yarn. The prices of these raw materials are volatile in nature. Hence, the operating margins are exposed to fluctuations in raw material prices. Cotton is an agricultural commodity and the availability and price of the same is highly dependent on agro-climatic conditions. Further, the price of cotton is stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. Hence, adverse movement in cotton prices can impact profitability.

• Highly fragmented and competitive industry

The company is exposed to intense competition in the industry limiting the bargaining power of manufacturers.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company to arrive at the rating.

Outlook: Stable

SMERA believes that APA Textiles will maintain a stable outlook over the medium term on account of its established presence in the textile industry. The outlook may be revised to 'Positive' in case of significant growth in revenue while sustaining improvement in profitability and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals or deterioration in the financial risk profile due to higher than expected working capital requirements or major debt-funded capex undertaken by the company.

About the Rated Entity - Key Financials

For FY2015-16, APA Textiles reported Profit after Tax (PAT) of Rs. 0.34 crore on operating income of Rs. 23.95 crore as against PAT of Rs. 0.27 crore on operating income of Rs. 27.53 in the previous year. The net worth stood at Rs. 4.20 crore as on 31 March, 2016 as against Rs. 3.86 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50*	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	31-Jan-2020	0.81	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	28-Feb-2022	1.44	SMERA BB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.22	SMERA BB- / Stable

* Includes sub-limit of ODBD to the extent of Rs. 2.50 crore.

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ABOUT SMERA

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