

Press Release

Arunachala Gounder Textile Mills Private Limited

26 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short-term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 40.00 crore bank facilities of ARUNACHALA GOUNDER TEXTILE MILLS PRIVATE LIMITED (AGTMPL). The outlook is '**Stable**'.

The Erode-based AGTMPL, incorporated in 1995 by Mr. Natarajan and family is engaged in the manufacturing of viscose yarn, cotton lycra yarn and cotton yarn at Pallipalayam, Tamil Nadu. The company with total spindle capacity of 24,192 and 1,264 roters is led by Directors, Mr. Ramesh and Mr. Prabhuram. Further, the company also has a windmill of 5.8 MW capacity for the company's power requirements.

During FY2017, viscous yarn contributed around 83 percent to total revenue and the balance from cotton yarn and cotton lycra yarn. The company procures cotton from local suppliers and viscose staple fibre from Grasim Industries Limited. The products are sold in the domestic as well as overseas markets

List of key rating drivers and their detailed description

Strengths:

Established presence in the textile industry, extensive experience of the promoters

AGTMPL was established in 1995 by Mr. Natarajan and family. The Directors, Mr. Prabhuram and Mr. Ramesh have more than two decades of experience in the textile industry. SMERA believes that the long track record of operations and extensive experience of the management in the textile industry have helped the company maintain long term relations with customers and suppliers.

Growth in operating income and profitability

The revenues of the company rose to Rs. 122.02 crore in FY2017 from Rs. 110.30 crore in FY2016 and Rs. 104.48 crore in FY2015. The growth in revenues was due to increase in sales realisations and exports. Of the total revenues in FY2017, exports contributed 26 percent as opposed to 7 percent of total sales in FY2016. Operating margins increased to 11.96 percent in FY2017 as against 10.55 percent in FY2016 owing to decrease in power cost. The Net Cash Accruals (NCA) stood at Rs. 7.26 crore as against Rs. 6.37 crore in FY2016.

On Provisional basis, the company generated revenue of Rs.87.85 crore during April 01, 2017 to December 31, 2017.

Moderate financial risk profile

The financial risk profile of the company is moderate marked by net worth of Rs. 33.09 crore as on 31 March, 2017 as against Rs. 30.95 crore in the previous year. The increase in net worth is on account of equity infusion by directors coupled with retention of profits. The gearing stood at 1.50 times as on 31 March, 2017 as against 1.31 times as on 31 March, 2016. The moderate increase in gearing was on account of debt funded capex to purchase windmill and a building. Of the total debt of Rs. 49.79 crore as on 31 March, 2017, long term debt constituted Rs.15.65 crore, unsecured loans Rs. 4.64 crore and short term loans of Rs. 29.50 crore. The Interest Coverage Ratio and Debt Service Coverage Ratio stood at 1.92 times and 1.29 times respectively in FY2017. The Total outside Liabilities to Total Net Worth (TOL/TNW) stood at 2.10 times as on 31 March, 2017 as against 1.80 times as on 31 March, 2016. SMERA believes that, the financial risk profile will remain moderate in the medium term in the absence of major debt funded capex plans.

Weaknesses

Working capital intensive operations

The operations of the company were working capital intensive marked by high Gross Current Assets (GCA) of 174 days in FY2017 as against 152 days in FY2016. This is mainly on account of high inventory days of 96 days in FY2017 and 76 days in FY2017. Further, the Debtor days stood at 69 in FY2017 as against 70 in FY2016. The average working capital limit utilisation of last six months ending 31 January, 2018 stood at ~96 percent.

Exposure to volatility in raw material prices

The profitable margins of the company were susceptible to fluctuations in the prices of major raw materials such as viscose staple fibre in keeping with volatility in the prices of wood pulp. Further, prices of viscose yarn are influenced by movement in prices of its substitutes i.e. cotton and polyester staple fibres. The prices of cotton are highly dependent on agro-climatic conditions. Besides, cotton prices are fixed by the 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. SMERA believes that AGTMPL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic market.

Intense competition in the textile industry

The company is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organised and unorganised players in the domestic and overseas markets that offer lower production costs, cheaper labour and ease of-doing business.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Arunachala Gounder Textile Mills Private Limited

Outlook – Stable

SMERA believes that AGTMPL will maintain a stable outlook in the medium term on account of the established presence and extensive experience of the directors in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the expected revenues, has stretched its working capital cycle or the financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
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Operating Income	Rs. Cr.	122.02	110.30	104.48
EBITDA	Rs. Cr.	14.59	11.64	12.60
PAT	Rs. Cr.	1.83	1.25	1.24
EBITDA Margin	(%)	11.96	10.55	12.06
PAT Margin	(%)	1.50	1.14	1.18
ROCE	(%)	11.92	10.19	20.78
Total Debt/Tangible Net Worth	Times	1.50	1.31	1.27
PBDIT/Interest	Times	1.92	1.85	1.99
Total Debt/PBDIT	Times	3.33	3.23	2.92
Gross Current Assets (Days)	Days	174	152	170

Applicable Criteria

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

Note on complexity levels of the rated instrument:
<https://www.smerra.in/criteria-complexity-levels.htm>
Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the 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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB-/Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BBB-/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.90	SMERA BBB-/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.50	SMERA A3
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	SMERA A3

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ABOUT SMERA

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