

Press Release

Arunachala Gounder Textile Mills Private Limited (AGTMPL)

May 20, 2019

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs.75.00 Cr. (Enhanced from Rs.40.00 crores)
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded)
	ACUITE A3+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.40.00 crores bank facilities and assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to Rs. 35.00 crores bank facilities of Arunachala Gounder Textile Mills Private Limited. The outlook is '**Stable**'.

Rating upgrade reflects improvement in the business risk profile on account of merger of one of the associate entity 'P N Tex India Private Limited'; the merger also resulted in improved operational efficiencies and profitability. However, the rating continues to be constrained by working capital intensive operations and moderate financial risk profile.

Erode based Arunachala Gounder Textile Mills Private Limited (AGTMPL) was incorporated in the year 1995 and is promoted by Mr Natarajan's family. It is engaged in the manufacturing of viscose and cotton yarn. The company's manufacturing facility is located at Pallipalayam, Tamil Nadu with total spindle capacity of 24,192 and 1,264 rotors. The company also has windmills of 9.8 MW power used for captive purpose.

P N Tex India Private Limited (earlier known as Karur Shrinidhi Yarn Mill Private Limited) was incorporated on 12th September, 1994, based in Pallipalayam district of Tamil Nadu. The company was taken over by AGTMPL in February, 2013 by acquiring stake of over 50 per cent; further, in FY2018 the balance stake was acquired and merged with itself w.e.f. 01.04.2017.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Arunachala Gounder Textile Mills Private Limited (AGTMPL) and P N Tex India Private Limited (PNTIPL) for the years 2016 and 2017. FY2018 is a consolidated financial post merger of PNTIPL with AGTMPL. Extent of Consolidation: Full

Key Rating Drivers

Strengths

Established track record of the operations with experienced management:

AGTMPL was established in 1995 by Mr. Natarajan family. Currently, the operations are managed by the Directors, Mr. Prabburam and Mr. Ramesh who are having more than two decades of experience in textile industry. Promoters' presence in the industry for more than two decades and presence across the geographies supported in maintaining its business risk profile and increase its operational efficiency.

Revenues of AGTMPL on a consolidated level is moderate within the industry at about Rs.195 crores for FY 2019 (provisional) as against Rs.176.99 crores for FY 2018 and Rs.158.86 crores for FY 2017. Acuite believes that captive windmills at consolidated level of about 9.8 MW, and regular capex for modernization and enhancing the capacity are expected to support in improvement of its business risk profile over the medium term.

Merger with P N Tex India Private Limited:

AGTMPL merged with P N Tex India Private Limited with effect from 1st April, 2017. Both the companies were engaged in viscose yarn manufacturing and sourced raw material from Grasim Industries Ltd which is the largest supplier of viscose in India. The entities were merged to take the operational and pricing advantage with its customers and suppliers. The merger resulted in improvement of its business risk profile marked by increase in its revenues to about Rs.195.2 crores in FY2019 (prov) and Rs.176.9 crores in FY2018; AGTMPL's revenues on standalone basis in FY2017 was about Rs.122.0 crores.

Moderate Financial Risk Profile:

Financial risk profile is comfortable marked by comfortable gearing (debt to equity), moderate total outside liabilities to total net worth (TOL/TNW) and comfortable debt protections metrics. Gearing level is moderate though deteriorated to 2.08 times as on March 31, 2018 from 1.74 times as on March 31, 2017; owing to consolidated debt of both the entities and regular capex. However, gearing is expected to improve to comfortable levels of about 1.5 times over the medium term supported by accretion to reserves and repayment. TOL/TNW is moderate at 2.68 times as on 31 March, 2018. Net worth is moderate at Rs.34.44 crore as on 31 March, 2018. Of the total debt of Rs.71.66 crores as on March 31, 2018, long term debt constitute Rs.16.49 crores, unsecured loans of Rs.9.10 crores and short term loans of Rs.40.25 crores. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 2.05 times and 0.16 times respectively in FY2018. It has reported cash accruals of Rs.11.28 crore in FY2018; its accruals are estimated around Rs.13-17 crore over the medium term against which its repayment obligations are about Rs.7.0 crore. The company does regular capex of about Rs.5-10 crores and moderate working capital operations is expected to keep the financial risk profile at similar levels over the medium term.

Weaknesses

Working Capital Intensive Operations

The operations of the company were working capital intensive in nature and in line with the past trend at about 161 days. This is mainly on account of high debtor days at 86 days in FY2018 and 81 days in FY2017. Further, inventory days stood at 64 days in FY2018 as against 89 days in FY2017. WC intensive operations lead to high utilization of working capital limits at about 97 per cent for the last six months ending March 2019. Acuite believes that with regular capex, and high GCA nature of operations, working capital intensity continues at similar levels over the medium term.

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 organized and unorganized players in the domestic market and also from other nations wherein production costs are lower, offer cheap labour with ease of-doing business.

Exposure to volatility in Raw material prices

Profitable margins of the company were susceptible to fluctuations in the price of the major raw material viscose staple fibre in keeping with volatile wood pulp prices. 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. Acuite 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.

Liquidity:

Liquidity is moderate marked by comfortable cash accruals against moderate repayment obligations, partly constrained by high bank limit utilisation. It has reported cash accruals of Rs.11.28 crore in FY2018 against the repayment obligations of Rs.5.82 Crores. Its expected cash accruals are in the range of Rs. 13-17 crore over the medium term against which its repayment obligations are about Rs. 7.00 crore. It has fixed deposits of about Rs.2.12 crore as on March 31, 2018. However, working capital intensive operations lead to high utilisation of its bank lines at about 97 per cent over last six months through March 2019. Acuite believes that the liquidity profile continues to be moderate marked by comfortable accruals vis-à-vis its repayment obligations, incremental working capital requirements and to part finance its regular

capex.

Outlook: Stable

Acuite believes that AGTMPL will maintain 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 revenues and profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in working capital cycle or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	176.99	158.86	151.59
EBITDA	Rs. Cr.	21.12	20.17	14.95
PAT	Rs. Cr.	4.16	2.25	0.49
EBITDA Margin	(%)	11.93	12.70	9.86
PAT Margin	(%)	2.35	1.42	0.32
ROCE	(%)	13.06	12.53	18.21
Total Debt/Tangible Net Worth	Times	2.68	2.31	2.03
PBDIT/Interest	Times	2.05	1.88	1.72
Total Debt/PBDIT	Times	3.33	3.51	3.77
Gross Current Assets (Days)	Days	161	180	148

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
26 February, 2018	Cash Credit	Long Term	36.00	ACUITE BBB-/Stable (Assigned)
	Stand by Line of Credit	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	7.90	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	9.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.60	ACUITE A3 (Assigned)

***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	20.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/STABLE)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB/Stable (Assigned)
Term-Loans	Not Applicable	Not Applicable	Not Applicable	7.90	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/STABLE)
Term-Loans	Not Applicable	Not Applicable	Not Applicable	17.14	ACUITE BBB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.86	ACUITE BBB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A3+ (Upgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A3+ (Upgraded from ACUITE A3)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Withdrawn)

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About Acuité Ratings & Research:

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