

Press Release

Arunachala Gounder Textile Mills Private Limited

November 08, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.75.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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**) on the Rs.75.00 Cr bank facilities of Arunachala Gounder Textile Mills Private Limited (AGTML). The outlook is '**Stable**'.

The reaffirmation in the rating reflects the long track record of operations of the company & experienced management, moderate financial risk profile and adequate liquidity position marked by adequate cash accruals against moderate repayment obligations. The rating, however, continues to remain constrained on account of working capital intensive operations and susceptibility of margins to changes in input prices.

About the Company

Incorporated in the year 1995, AGTML is engaged primarily in the manufacturing of viscose yarn. The company is based in Pallipalayam, Tamil Nadu. The company currently has 43,776 spindles and 3,840 drums (192). Further it has wind mill which has capacity to generate 9.90 MW power used for captive purpose. The directors of the company - Mr. Ramesh Natarajan and Mr. Prabhuram Natarajan have more than two decades of experience in the textile industry. AGTML got merged with P N Tex India Private Limited in FY2018 to take the operational and pricing advantage with its customers and suppliers.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of AGTML to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

AGTML is engaged primarily in the manufacturing of viscose yarn for more than 2 decades. The company is promoted by Mr. Ramesh Natarajan and Mr. Prabhuram Natarajan who have more than two decades of experience in the textile industry. The top management is ably supported by a well-qualified and experienced team of the second line of management. The promoter's experience in the textile industry has helped the company build a healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large off-take. Further, the company is undertaking a solar project of Rs.10 crore out of which Rs.7.00 crore is funded by way of term loans and remaining Rs.3.00 crore is infused by promoters. The capex had started in August 2021 and will be completed by November, 2021. The purpose of the capex is power generation which will be captively used by the company. This solar project will have the capacity to generate 2.00 MW power. Acuite believes that AGTML will continue to benefit from the promoter's established presence in the textile industry over the medium term.

- **Moderate financial risk profile**

The financial risk profile of AGTML is moderate marked by improving gearing (debt to equity ratio) & moderate total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 1.79 times as on March 31, 2021 (Provisional) against 1.82 times as on March 31, 2020 on account of plough back of profits to reserves. TOL/TNW stood moderate at 2.44 times as on March 31, 2021 (Provisional) against 2.36 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.40.77 crore as on March 31, 2021 (Provisional) against Rs.37.96 crore as on March 31, 2020. The total debt of Rs.73.07 crore as on March 31, 2021 (Provisional) mainly consists of long-term debt of Rs.15.67 crore, short-term debt of Rs.42.15

crore and unsecured loans of Rs.15.25 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.41 times and 0.13 times respectively in FY2021 (Provisional); while DSCR stood at 1.09 times in FY2021 (Provisional).

The company has also availed Covid Loan - Term Loan (Working Capital / Emergency Credit Line Guarantee Scheme) of Rs.9.00 crore in March, 2021. The repayment for the same is expected to be completed by March, 2026.

Acuite believes that the financial risk profile of the company is expected to remain moderate on account of modest net worth backed by healthy cash accruals vis-à-vis moderate debt repayment obligations and moderate debt protection metrics.

Weaknesses

• Working capital intensive operations

AGTML's working capital operations are intensive marked by Gross Current Asset days (GCA) of 190 days in FY2021 (Provisional) against 149 days in FY2020. The inventory days stood at 93 days in FY2021 (Provisional) against 59 days in FY2020. The company maintains an inventory holding policy of 2-3 months. The debtors' days stood at 53 days in FY2021 (Provisional) against 59 days in FY2020. The credit period given to customers is around 60 days. However, fund based limits remains utilized at ~50-60 percent for last trailing 13 months ended September, 2021 and non-fund based limits remains utilized at ~80-90 percent for last trailing 6 months ended September, 2021.

Acuite believes that the company's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

• Susceptible to changes in input prices and high competition

AGTML's profitability is susceptible to changes in the prices of the raw material, i.e. viscose fibre. The 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. The prices of the main raw material, i.e. viscose fibre, are relatively stable as compared to cotton prices. Acuite believes that AGTML 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. Further, 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.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

AGTML has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.8.46 crore – Rs.11.28 crore during the last four years through FY2018-21 against moderate repayment obligations in the range of Rs.5.02 crore – Rs.7.91 crore during the same period. It is expected to generate cash accruals in the range of Rs.15.37 crore – Rs.20.17 crore over the medium term, against moderate repayment obligations in the range of Rs.5.68 crore – Rs.6.48 crore. Unencumbered cash and bank balances stood at Rs.0.35 crore as on March 31, 2021 (Provisional) with a current ratio of 1.23 times in the same period. However, fund based limits remains utilized at ~50-60 percent for last trailing 13 months ended September, 2021 and non-fund based limits remains utilized at ~80-90 percent for last trailing 6 months ended September, 2021.

Acuite believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuite believes that AGTML will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	151.61	195.71
PAT	Rs. Cr.	2.81	2.02
PAT Margin	(%)	1.85	1.03
Total Debt/Tangible Net Worth	Times	1.79	1.82
PBDIT/Interest	Times	2.41	1.93

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Aug-2020	Cash Credit	Long Term	42.00	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	1.49	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	1.91	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	9.09	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	0.08	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	0.93	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	0.15	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	2.10	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	0.39	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	0.70	ACUITE BBB/ Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	1.56	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Reaffirmed)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
	Bank Guarantee	Short Term	0.60	ACUITE A3+ (Reaffirmed)
20-May-2019	Cash Credit	Long Term	20.00	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
	Cash Credit	Long Term	16.00	ACUITE BBB/ Stable (Assigned)
	Term Loan	Long Term	7.90	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
	Term Loan	Long Term	17.14	ACUITE BBB/ Stable (Assigned)
	Proposed Bank Facility	Long Term	0.86	ACUITE BBB/ Stable (Assigned)
	Letter of Credit	Short Term	9.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	0.60	ACUITE A3+ (Upgraded from ACUITE A3)
	Standby Letter of Credit	Long Term	2.00	ACUITE BBB (Withdrawn)
26-Feb-2018	Cash Credit	Long Term	20.00	ACUITE BBB-/ Stable (Assigned)
	Standby Letter 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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Tamilnad Mercantile Bank Ltd.	Cash Credit	Not Applicable	Not Applicable	Not Applicable	42.00^	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan I	Not Available	Not Available	Not Available	0.01	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan II	April, 2018	9.00	August, 2022	0.89	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan III	January, 2019	9.00	April, 2026	1.65	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan IV	December, 2018	9.00	March, 2026	2.22	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term loan V	Not Available	Not Available	Not Available	0.01	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan VI	Not Available	Not Available	Not Available	0.01	ACUITE BBB/ Stable (Reaffirmed)

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Tamilnad Mercantile Bank Ltd.	Term Loan VII	Not Available	Not Available	Not Available	0.01	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan VIII	March, 2015	9.00	September, 2022	1.26	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan IX	March, 2015	9.00	September, 2022	0.24	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan X	Not Available	Not Available	Not Available	0.01	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan XI	March, 2021	9.00	September, 2028	3.45	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Term Loan (WCTL-ECLGS)	March, 2021	9.25	March, 2026	9.00	ACUITE BBB/ Stable (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.14	ACUITE BBB/ Stable (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3+ (Reaffirmed)
Tamilnad Mercantile Bank Ltd.	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A3+ (Reaffirmed)

[^]Includes sublimit for Packing Credit Limit - Rs.5.50 Crores and FBP/FBD/FBN/AACB – Rs.4.50 Crores

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About Acuite Ratings & Research:

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