

Press Release

Arunachala Gounder Textile Mills Private Limited

December 02, 2021



Rating Assigned, Reaffirmed and Withdrawn

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.10	13.10		ACUITE A3+ Reaffirmed
Bank Loan Ratings	10.16	10.16	ACUITE BBB Stable Assigned	
Bank Loan Ratings	61.90	61.90	ACUITE BBB Stable Reaffirmed	
Bank Loan Ratings	0.05	0.00	ACUITE BBB Withdrawn	
Total	-	85.16	-	-

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple 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).

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) on the Rs.10.16 Cr bank facilities of AGTML. The outlook is '**Stable**'.

Acuite has also withdrawn the long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) on the Rs.0.05 crore bank facilities of AGTML as per the withdrawal request from AGTML and no dues certificate from the banker in accordance with Acuite's withdrawal Policy.

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. Praburam 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.

Acuité 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.

Acuité 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, working capital limits remains utilized at 85-90 percent for last 6 months ended October, 2021.

Acuité 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. Acuité 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.

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. Liquid investments stood at Rs.8.44 crore as on March 31, 2021 (Provisional). However, working capital limits remains utilized at 85-90 percent for last 6 months ended October, 2021.

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

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

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (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>
- Entities In Manufacturing Sector -<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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Nov 2021	Term Loan	Long Term	0.24	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	42.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.26	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	2.22	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.14	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.45	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.89	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.65	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.60	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB Stable (Reaffirmed)
10 Aug 2020	Bank Guarantee	Short Term	0.60	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	0.08	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.91	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.39	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	1.56	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	1.49	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	42.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.70	ACUITE BBB Stable (Reaffirmed)

	Term Loan	Long Term	9.09	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.93	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	2.10	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.15	ACUITE BBB Stable (Reaffirmed)
20 May 2019	Standby Line of Credit	Short Term	2.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	7.90	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	0.86	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	16.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	17.14	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	0.60	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	9.50	ACUITE A3+ (Upgraded from ACUITE A3)
26 Feb 2018	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Standby 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	03-08-2021	Not available	09-08-2028	3.45	3.45	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	26-03-2021	Not available	26-03-2026	9.00	9.00	ACUITE BBB Stable Reaffirmed
Tamilnad Mercantile Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	42.00	42.00	ACUITE BBB Stable Reaffirmed
Tamilnad Mercantile Bank Limited	Not Applicable	Term Loan	25-04-2018	Not available	25-08-2022	0.89	0.89	ACUITE BBB Stable Reaffirmed
Tamilnad Mercantile Bank Limited	Not Applicable	Term Loan	01-07-2019	Not available	04-07-2026	1.65	1.65	ACUITE BBB Stable Reaffirmed
Tamilnad Mercantile Bank Limited	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	0.60	ACUITE A3+ Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	29-12-2018	Not available	30-03-2026	2.22	2.22	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	26-03-2015	Not available	13-09-2022	1.26	1.26	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	26-03-2015	Not available	13-09-2022	0.24	0.24	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	12.50	ACUITE A3+ Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.01	0.00	ACUITE BBB Withdrawn
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.01	0.00	ACUITE BBB Withdrawn
Tamil Nadu	Not		Not	Not	Not			ACUITE

Mercantile Bank	Applicable	Term Loan	available	available	available	0.01	0.00	BBB Withdrawn
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.01	0.00	ACUITE BBB Withdrawn
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.01	0.00	ACUITE BBB Withdrawn
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	12-12-2020	Not available	06-12-2027	10.16	10.16	ACUITE BBB Stable Assigned
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	12-12-2020	Not available	06-12-2027	1.19	1.19	ACUITE BBB Stable Reaffirmed

Note:

1. Cash Credit Includes sublimit for Packing Credit Limit- Rs.5.50 Crores and FBP/FBD/FBN/AACB – Rs.4.50 Crores
2. Withdrawn Amount not included in total facilities rated.

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About Acuité Ratings & Research

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