

Press Release

Arunachala Gounder Textile Mills Private Limited

February 13, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	72.06	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	13.10	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	85.16	-	-

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.85.16 Cr bank facilities of Arunachala Gounder Textile Mills Private Limited (AGTML). The outlook is '**Stable**'.

Rating Rationale

The rating reaffirmation takes into account the stable operating and financial performance of AGTML, marked by improved operating income, range bound operating margins and moderate financial risk profile. The operating income of the Company improved to Rs. 237.75 Cr in FY2022 as against Rs.151.44 Cr in FY2021. In H1FY23 the company generated revenues of Rs. 133.52 Cr and is expected to close the year in the range of Rs. 240-250 Cr. The operating margins ranged between 9-12.50 percent for the last three years ended FY2022. The financial risk profile marked by modest gearing and comfortable debt protection metrics continues to remain moderate. The Company in FY2023 is expected to complete its ongoing capex of setting up a 10MW solar power plant, post commencement of which operating margins are expected to improve further over the medium term.

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 45,792 spindles and 7,680 drums (192). Further it has wind mill which has capacity to generate 11.90 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

Acuite Ratings & Research Limited

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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. 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 the company has remained moderate with modest gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.41.43 Cr and Rs.57.75 Cr as on March 31, 2022 and 2021 respectively. The gearing of the company stood at 1.58 times as on March 31, 2022 against 1.75 times as on March 31, 2021. TOL/TNW stood at 1.95 times in FY2022 as against 2.43 times in FY2021. Debt protection metrics is comfortable marked by Interest coverage ratio and debt service coverage ratio of 3.10 times and 1.92 times respectively for FY2022 as against 2.32 times and 1.15 times respectively for FY2021. The debt to EBITDA of the company stood at 3.02 times for FY2022 as against 3.97 times for FY2021. Further, the company has undertaken a capex project to set up a 10MW solar power plant. The total cost of the project is estimated to be Rs.55 Cr which is funded by Rs.36 Cr of term loans and balance by internal accruals/promoter contribution. The capex had started in August 2021 and will be completed by March, 2023. Acuité believes that the financial risk profile of the company will continue to remain moderate over the medium term even after taking into account the above quoted capex plan.

Weaknesses

- **Working capital operations**

AGTML's operations are working capital intensive as reflected by its Gross current assets (GCA) days of 124 days as on March 31, 2022 as against 214 days as on March 31, 2021. The improvement in GCA days is on account of improvement in inventory and debtor days. Inventory days stood at 48 days as on March 31, 2022 as against 97 days as on March 31, 2021. Subsequently, the payable period stood at 25 days as on March 31, 2022 as against 46 days as on March 31, 2021 respectively. The debtor day stood at 43 days as on March 31, 2022 as against 63 days as on March 31, 2021. Further, the average bank limit utilization in the last eight months ended November, 22 remained at ~91 percent for fund based and 94 percent for non-fund based.

- **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 agroclimatic 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.

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 Position: Adequate

The liquidity profile of the company stood adequate, company is having Net Cash Accruals of Rs 19.10 Cr ending FY2022 against its long term debt obligations of Rs. 5.27 Cr .The company is expected to generate net cash accruals in the range of Rs. 20-25 Cr against repayment obligations of Rs. 5-6.5 Cr. The working capital cycle of AGTML stood moderate on account of moderate GCA (Gross Current Asset) day of 124 in FY2022. Unencumbered cash and bank balances stood at 1.27 Cr as on March 31, 2022. The current ratio of the company stood at 1.38 times as on March 31, 2022. The fund based bank limits utilization of AGTML is 91 percent for fund based and 94 for non-fund based respectively for the past eight months ending November 2022. Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligation.

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 deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	237.75	151.44
PAT	Rs. Cr.	6.32	3.48
PAT Margin	(%)	2.66	2.30
Total Debt/Tangible Net Worth	Times	1.58	1.75
PBDIT/Interest	Times	3.10	2.32

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of

the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Dec 2021	Term Loan	Long Term	9.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	42.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	1.19	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.45	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.89	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.60	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	1.26	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	10.16	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	2.22	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.65	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	0.01	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	0.01	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	0.24	ACUITE BBB Stable (Reaffirmed)
	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)

08 Nov 2021	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)
		Long		ACUITE BBB Stable
	Term Loan	Term	0.01	(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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Tamilnad Mercantile Bank Limited	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.60	ACUITE A3+ Reaffirmed
Tamilnad Mercantile Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.70	ACUITE BBB Stable Reaffirmed
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.33	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	26 Mar 2021	9.25	26 Mar 2026	Simple	8.06	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.61	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.08	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.59	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.00	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.12	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.50	ACUITE BBB Stable Reaffirmed

Tamilnad Mercantile Bank Limited	Not Applicable	Term Loan	07 Jan 2019	9.00	07 Apr 2026	Simple	0.93	ACUITE BBB Stable Reaffirmed
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	29 Dec 2018	9.00	30 Mar 2026	Simple	1.14	ACUITE BBB Stable Reaffirmed

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