

Press Release

Annamalaiar Spinners Private Limited

September 05, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 6.54 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 6.54 crore bank facilities of ANNAMALAIAR SPINNERS PRIVATE LIMITED (ASPL). The outlook is '**Stable**'.

Annamalaiar Spinners Private Limited (ASPL) manufactures polyester-cotton blended carded yarn and combed yarn. The company has manufacturing facility located in Dindigul (Tamil Nadu) with installed capacity of 12,672 spindles. The day-to-day operations are managed by Mr. Sabarish Jayabalan and Mr. Vivek Velusamy.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of ASPL.

Key Rating Drivers

Strengths

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

ASPL commenced production from 1995. The company is managed by its directors, Mr. Sabarish Jayabalan and Mr. Vivek Velusamy. The experience of the directors has enabled the company forge healthy relationships with customers and suppliers.

Acuité believes that the group will continue to benefit from its experienced management and established relationships with customers.

- **Increase in scale of operations**

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of around ~31.08 per cent through the last three years ended 31 March, 2019 (Provisional). The company reported revenue growth of ~34.40 per cent with operating income of Rs.27.61 crore in FY2019 (Provisional) as against operating income of Rs.20.54 crore in FY2018. This is majorly due to increase in the utilisation of the production capacity.

- **Efficient working capital management**

The working capital of ASPL is efficiently managed marked by Gross Current Asset (GCA) days of 66 for FY2019 (Provisional) as against 67 in the previous year. Inventory days stood at 41 for FY2019 (Provisional) as against 34 for FY2018. Further, debtor days stood at 26 for FY2019 (Provisional) as against 25 in FY2018. However, the working capital facility is fully utilised for last 6 months ending July, 2019. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

Weaknesses

- **Decline in profitability**

The operating margins of the company declined to 5.55 per cent in FY2019 (Provisional) from 7.35 per cent in FY2018. This is majorly due to fluctuation in raw material prices and increase in overheads. Further, Profit After Tax (PAT) margin have also declined to 0.69 per cent in FY2019 (Provisional) from 1.89 per cent in FY2018. Acuité believes that the company's ability to pass on the increase in production cost to its customers and maintaining its profitability will be key rating sensitivity.

• Moderate financial risk profile

The financial risk profile is moderate marked by low net worth and moderate debt protection measures and gearing. The net worth of the company is low at Rs.4.12 crore as on 31 March, 2019 (Provisional) as against Rs.3.86 crore as on 31 March, 2018. The gearing (debt to equity) of the company stood moderate at 1.03 times as on March 31, 2019 (Provisional) as against 1.11 times as on March 31, 2018. Total debt of Rs.4.23 crore consists of term loan of Rs.2.14 crore, unsecured loans of Rs.0.77 crore and working capital facility of Rs.1.32 crore as on 31 March, 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 2.24 times as on 31 March, 2019 (Provisional) as against 1.78 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 2.59 times in FY2019 (Provisional) as against 2.83 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.23 times as on 31 March, 2019 (Provisional) as against 0.24 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 1.45 times in FY2019 (Provisional) as against 1.55 times in FY2018.

• Exposure to intense competition

The domestic road freight transport industry has several large and small players because of low entry barrier (modest capital and technology requirements and easy access to finance for vehicles). ERPL will be exposed to risk related to intense competition because of fragmented industry which limits the bargaining power with customers.

Liquidity Position

ASPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.96 crore in FY2019 (Provisional) as against Rs.1.02 crore in FY2018, while its maturing debt obligation around Rs.0.48 crore over the same period. The company's working capital operations are efficient as marked by gross current asset (GCA) days of 66 in FY2019 (Provisional). Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilised during the last 6 months' period ended July, 2019. The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2019 (Provisional). The current ratio of the company stood at 0.82 times as on March 31, 2019 (Provisional).

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term on back of experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in company's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	27.61	20.54	16.07
EBITDA	Rs. Cr.	1.53	1.51	0.88
PAT	Rs. Cr.	0.19	0.39	-0.10
EBITDA Margin	(%)	5.55	7.35	5.49
PAT Margin	(%)	0.69	1.89	-0.64
ROCE	(%)	9.71	10.88	5.12
Total Debt/Tangible Net Worth	Times	1.03	1.11	1.20
PBDIT/Interest	Times	2.59	2.83	2.09
Total Debt/PBDIT	Times	2.70	2.84	4.47
Gross Current Assets (Days)	Days	66	67	71

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

None.

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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. Cr.)	Ratings/Outlook
08-July-2019	Cash Credit	Long Term	1.50	ACUITE B+ (Indicative)
	Term Loan	Long Term	4.54	ACUITE B+ (Indicative)
	Letter of Credit	Short Term	0.50	ACUITE A4 (Indicative)
04-May-2018	Cash Credit	Long Term	1.50	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	4.54	ACUITE B+/Stable (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE A4 (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	1.50	ACUITE B+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.54	ACUITE B+/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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