Press Release

Tirupur Pandit Hosiery Millss Private Limited

October 19, 2019

Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded long-term rating to **'ACUITE B+' (read as ACUITE B plus)** from **'ACUITE BB-' (read as ACUITE double B minus)** and reaffirmed the short-term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs. 40.00 crore bank facilities of Tirupur Pandit Hosiery Millss Private Limited (TPPL). The outlook is **'Stable'.**

The rating downgrade reflects subdued operating performance, decline in margins and elevated debt levels leading in stretch in liquidity profile. The increase in debt levels has led to significant increase in interest outgo having adverse impact on net profit margins and net cash accruals. Further, the company is facing issues in realization of receivables of which top 5 customer accounts for more than 80 per cent of the total revenue.

Tamil Nadu-based, Tirupur Pandit Hosiery Millss Private Limited (TPPL) was established as a partnership firm in 1974 and in 2004, the constitution was changed to a private limited company. The company is engaged in manufacturing of readymade garments (RMG) for male, female and kids wear. TPHM is a 3 star export house (recognised by Government of India) and ISO 9001 certified company.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of TPPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established presence in the textile industry and experienced management**

  TPPL incorporated in 1974 by Mr. N. Subramanian and Mr. P. Padmanaban is engaged in manufacturing of readymade garments. It has established market presence in the industry for over three decades. The company has established healthy relationship with customers and suppliers. It derives 98 per cent of its income from export market. Acuité believes that TPPL will sustain the existing business profile on the back of established market presence in the textile industry and healthy customer relationship over the near to medium term.

- **Moderate financial risk profile**

  The moderate financial risk profile of the company is marked by healthy tangible net worth, moderate gearing and debt protection metrics. The Net worth stood at Rs.16.50 crore as on March 31, 2019 as against Rs. 15.62 crore as on March 31, 2018. The gearing has increased to 2.09 times as on March 31, 2019 as compared to 1.97 times in the previous year. Total debt of Rs. 34.44 crore includes working capital borrowings of Rs. 28.95 crore, outstanding term loans of Rs. 4.20 crore and current portion of long term debt of Rs. 1.29 crore. The company has followed a moderate leverage policy in the past few years. The company's cash accruals in the range of Rs. 2.60 – 2.80 crores against repayment obligation of Rs.1.25 crore to Rs. 1.50 crore for last three year ending FY2019. The cash accruals are estimated to remain in the similar range of Rs. 2.50-3.00 crores over the near to medium term. Interest coverage ratio (ICR) stood at 1.48 times in FY2019 against 1.64 times in FY2018. DSCR stood at 1.21 times in FY2019 as against 1.29 times in FY2018. Acuité believes that improvement in profitability will be crucial for the company to maintain its financial risk profile.

Weaknesses

- **Uneven revenue and Margins**

  The operating income of the company stood at Rs. 111.34 crore for FY2019 as against Rs. 81.07 crore in FY2018 and Rs.113.99 crore in FY2017. The operating margins of the company have declined to 7.85 per cent in FY2019 as against 9.71 per cent in FY2018 and 5.93 per cent in FY2017. The PAT margins have also declined to 0.79 per cent in FY2019 as against 0.99 per cent in FY2018 and 0.77 per cent in FY2017. Acuité believes that the company's ability to maintain existing business risk profile and margins will remain key rating deliverable.

- **High competition and Susceptibility of profitability to fluctuations in raw material prices**

  TPPL operates in the textile industry, which is marked by presence of large number of unorganized and organized players thereby creating stiff competition. Further, the company is exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets. Acuité believes that the company's ability to pass on increase in prices of raw materials to the end customers shall be critical towards maintaining its credit risk profile. Adverse movements in prices on account of global demand - supply mismatches may result in downward pressure on the company's profitability margins.

Rating Sensitivities

- Decline in operating and profitability margins leading to deterioration in the financial risk profile.
- Uneven revenue and high reliance on working capital limits

Material Covenants

None

Liquidity Position: Stretched

The company's liquidity is stretched, marked by net cash accruals in the range of Rs.2.50 - 2.67 crores against maturing debt obligations in the range of Rs.1.30-1.50 crores during the last three years. The working capital operations are moderately working capital intensive as marked by gross current asset (GCA) days of 111 in FY2019 as compared to 127 days in FY2018. The cash credit limit remained utilized at ~98 per cent during the last six months period ended September 2019. The unencumbered cash and bank balances stood low at Rs. 0.12 crore as on March 31, 2019. The current ratio stood low at 0.67 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain stretched over the near term unless there is improvement in margins and working capital operations.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term, owing to its experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and higher-than expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	111.34	81.07	113.99
EBITDA	Rs. Cr.	8.74	7.87	6.76
PAT	Rs. Cr.	0.88	0.80	0.88
EBITDA Margin	(%)	7.85	9.71	5.93
PAT Margin	(%)	0.79	0.99	0.77
ROCE	(%)	12.88	12.80	15.32
Total Debt/Tangible Net Worth	Times	2.09	1.97	8.71
PBDIT/Interest	Times	1.48	1.64	1.56
Total Debt/PBDIT	Times	4.13	3.87	4.92
Gross Current Assets (Days)	Days	111	127	117

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

Not Applicable

Any other information

None

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
10- Aug -2018	Term Loan	Long Term	3.21	ACUITE BB-/Stable (Assigned)
	Packing Credit	Short Term	19.00	ACUITE A4 (Assigned)
	Bills Discounting	Short Term	7.50	ACUITE A4 (Assigned)
	Standby Line of Credit	Short Term	5.30	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	4.99	ACUITE BB-/Stable (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
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.73	ACUITE B+/ Stable (Downgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A4 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4 (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	5.30	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.47	ACUITE B+/ Stable (Downgraded)

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About Acuité Ratings & Research:

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