

Press Release

TRK Textiles India Private Limited

April 04, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.00	-	ACUITE A4+ Upgraded
Bank Loan Ratings	72.00	ACUITE BB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	79.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and its short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.79.00 Cr bank facilities of TRK Textiles India Private Limited (TRK). The outlook is '**Stable**'.

Rational for rating upgrade:

The upgrade in the rating reflects extensive experience of the promoters, significant improvement in the operating margins, expected improvement in the revenues & margins going forward and expected improvement in the financial risk profile & liquidity position going forward.

About the Company

Tirupur (Tamil Nadu) based, TRK was incorporated in 2006 and is promoted by Mr. Saravanan. S and Mrs. Sathya Saravanan Kandasamy. The company is engaged in manufacturing of cotton yarn and knitted fabric. TRK has an installed capacity of 18,000 spindles and manufactures 100 percent cotton combed yarn of count 20's to 44's. It also has an installed capacity of knitting fabric of 2 tonnes per day (TPD) and a wind mill of 1.00 Mega Watt (MW) for captive consumption.

Analytical Approach

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

Key Rating Drivers

Strengths

>Extensive experience of promoters

TRK is owned and managed by Mr. Saravanan S with around two decades of experience in the textile industry. Mrs. Sathya Saravanan Kandasamy is the other key Director. The extensive experience has enabled the company to establish healthy relationships with customers and suppliers, to ensure a steady raw material supply.

Acuité believes that the promoter's extensive experience in the textile industry and healthy relationship with customers and suppliers is expected to support its business risk profile over the medium term.

>Benefit of captive power plant

TRK has a captive wind mill of 1 MW. The power plant has been supporting about 20 percent to its power requirement. The company has already set up solar power plant of 3MW in May, 2020 with project cost of Rs.13.00 Cr, which is funded through term loan of Rs.9.65 Cr and remaining through internal accruals and unsecured loans. The company has also set up additional solar power plant of 3MW last year with project cost of Rs.12.50 Cr which is funded through term loan of Rs.10.50 Cr and remaining through internal accruals and unsecured loans. Acuité believes that captive power generation is expected to support the company in reduction of its power cost over the medium term, thereby improving its profitability matrices.

>Improvement in the operating margins

The operating margin of the company stood at 17.04 percent in FY2021 as against 8.06 percent in FY2020. In FY2021, due to Covid-19, China who was number one exporter of textiles was blacklisted by America and the export market. So, this became a boon for India and all textile companies started doing very well. Despite the lockdown faced by company, the EBITDA margins improved in FY2021. Also, during covid-19, the demand for knitted fabrics increased in a big way, so this led to increase in selling price and the operating margins.

Acuité believes that the operating margins are also expected to improve over the medium term.

Weaknesses

>Working capital intensive operations

TRK's working capital operations are intensive marked by Gross Current Asset days (GCA) of 326 days in FY2021 against 299 days in FY2020. The inventory days stood at 92 days in FY2021 against 98 days in FY2020. The inventory consists of raw materials such as cotton, yarn, fabrics, etc. and finished goods such as cotton yarn and knitted fabric. The company maintains an inventory policy of 30-120 days for raw materials and 15-90 days for finished goods. However, the procurement quantity would depend on the current prices and upcoming demand/supply scenario. The debtors' days stood at 227 days in FY2021 against 196 days in FY2020. The credit period given to customers is around 45-150 days. The debtors' days increased in FY2021 due to low revenues and some delay in receiving the payment from the customers. The creditors' days stood at 42 days in FY2021 against 70 days in FY2020. The company makes advance payment or enjoys a credit period of 7-21 days from their suppliers. However, the fund based remains utilized at 63.59 percent for last 6 months ended February, 2022 and the non-fund based limits remains utilized at 89.48 percent for last 6 months ended February, 2022.

Acuité believes that the working capital operations are expected to remain on similar lines with respect to the receivable cycle; which will remain a key rating sensitivity factor.

>Average financial risk profile

Financial risk profile of TRK is average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 2.65 times as on March 31, 2021 against 2.21 times as on March 31, 2020. TOL/TNW stood at 3.03 times as on March 31, 2021 against 2.87 times as on March 31, 2020. Tangible net worth of the company stood low at Rs.23.96 crore as on March 31, 2021 against Rs.24.56 crore as on March 31, 2020. The low net worth in FY2021 is majorly due to the PAT losses. Of the total debt of Rs.63.38 crore as on March 31, 2021, long-term debt stood at Rs.22.82 crore, short-term debt stood at Rs.28.16 crore, unsecured loans stood at Rs.1.98 crore and CPLTD stood at Rs.10.43 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.86 times and 0.07 times respectively in

FY2021; while DSCR stood at 0.97 times in FY2021.

Acuité believes that the ability of the company to improve its capital structure by improvement in the net worth will be a key rating sensitivity.

>Moderate scale of operations

TRK's revenue remained stagnant over the last three years at Rs.67.83 crore, Rs.81.17 crore and Rs.85.46 crore in FY2021, FY2020 and FY2019, respectively, due to capacity being already utilized at optimum levels. The Company has already achieved turnover of Rs.101.91 crore from April, 2021 to March 20, 2022 and is expecting to achieve Rs.110 crore in FY2022.

Acuité believes that the revenue growth would continue to remain modest over the medium term until any modernization or enhancement in capacity is undertaken.

Rating Sensitivities

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

Material covenants

None

Liquidity: Stretched

TRK has stretched liquidity position as reflected by modest net cash accruals and intensive working capital operations. Current position of cash accruals is at Rs.4.40 crore in FY2021 against high repayment obligations of Rs.10.43 crore, further, going forward in FY2022 to FY2024, the cash accruals are expected to be in the range of Rs.14.46 crore – Rs.19.31 crore against moderate repayment obligations in the range of Rs.5.64 crore – Rs.8.87 crore. Unencumbered cash and bank balances stood at Rs.0.12 crore as on March 31, 2021 with a current ratio of 1.31 times in the same period. Liquid investments stood at Rs.1.93 crore as on March 31, 2021. The working capital operations are intensive marked by GCA of 326 days for FY2021. However, the fund based remains utilized at 63.59 percent for last 6 months ended February, 2022 and the non-fund based limits remains utilized at 89.48 percent for last 6 months ended February, 2022.

Acuité believes that liquidity profile is expected to remain stretched on account working capital-intensive and moderate cash accruals against high repayment obligations.

Outlook: Stable

Acuité believes that TRK will maintain a 'Stable' outlook over the medium term owing to its experienced management. 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 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	67.83	81.17
PAT	Rs. Cr.	(0.60)	0.09
PAT Margin	(%)	(0.89)	0.12
Total Debt/Tangible Net Worth	Times	2.65	2.21
PBDIT/Interest	Times	1.86	2.39

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-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
11 Jan 2021	Term Loan	Long Term	6.24	ACUITE BB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.25	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	6.90	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BB- Stable (Assigned)
	Working Capital Term Loan	Long Term	8.13	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	3.60	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	6.46	ACUITE BB- Stable (Assigned)
	Cash Credit	Long Term	34.00	ACUITE BB- Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	3.42	ACUITE BB- Stable (Assigned)
08 Dec 2020	Bank Guarantee	Short Term	1.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	19.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	34.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
27 Sep 2019	Cash Credit	Long Term	34.00	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BB Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Reaffirmed)
05 Sep 2018	Cash Credit	Long Term	34.00	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	9.00	ACUITE BB Stable (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ Upgraded (from ACUITE A4)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ Upgraded (from ACUITE A4)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.22	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Term Loan	31-12-2014	10.75	31-07-2022	1.24	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Term Loan	30-09-2019	7.60	31-08-2026	2.65	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Term Loan	30-06-2020	7.60	30-06-2028	2.06	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Term Loan	30-06-2020	7.60	30-06-2028	3.85	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Term Loan	30-04-2020	7.40	30-04-2022	0.16	ACUITE BB Stable Upgraded (from ACUITE

							BB-)
State Bank of India	Not Applicable	Term Loan	30-09-2019	7.60	31-08-2026	5.19	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Term Loan	31-03-2018	10.75	31-12-2024	0.87	ACUITE BB Stable Upgraded (from ACUITE BB-)
State Bank of India	Not Applicable	Working Capital Term Loan	31-08-2020	7.40	31-08-2024	6.76	ACUITE BB Stable Upgraded (from ACUITE BB-)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Ashvita Ramesh Analyst-Rating Operations Tel: 022-49294065 ashvita.ramesh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité