

Press Release

Theni Guru Krishna Textile Mills Private Limited

October 01, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 192.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs. 192.00 crore bank facilities of Theni Guru Krishna Textile Mills Private Limited (TGKTM). The outlook is '**Stable**'.

TGKTM was established in 2005 by taking over the existing partnership firm, M/s. Theni Guru Krishna Mills & Theni Krishna Exports. It is promoted by ATK group which has been engaged in the textile business since 1950. Based out of Theni (Tamil Nadu), TGKTM is a vertically integrated textile player and sells cotton yarn, grey fabric as well as garments. The company majorly exports made-ups to USA health care sector. It has installed capacity of 38540 spindles for spinning division, 381 looms for weaving division, 402 machines for garmenting and 5.25 MW of installed windmill division which supplies over 25 percent of the company's power requirement.

Analytical Approach

To arrive at its rating, Acuite has considered the standalone business and financial risk profile of TGKTM.

Key Rating Drivers:

Strengths

• Established track record of operation and experienced management:

The rating draws comfort from the longstanding experience of over seven decades of the promoters of TGK (ATK group) in textile and allied sectors, having started with cotton ginning, trading and allied business activities in 1950. The management has built healthy relationship with suppliers for procurement of raw materials over the years at competitive cost and good credit terms. The company has reported steady growth in operating revenues over the past three years with a three-year CAGR of 16 percent between FY2016 and FY2018. It exports two-third of its overall sales to USA health care sector, with majority of sales from made-ups such as surgical towels, cellular blankets and cotton bags. TGKTM has established relationship with USA clients accompanied with single-usage of products thus providing good revenue visibility in medium term. Acuite believes that TGKTM will benefit from the established presence in the textile industry and experienced management over the medium term.

• Comfortable financial risk profile:

TGK has comfortable financial risk profile marked by healthy adjusted tangible net worth of Rs.143.37 crore as on 31 March, 2018 (Provisional) as against Rs.134.06 crore a year ago. The company has conservative leverage policy with adjusted gearing of 1.22 times as on 31 March, 2018 (Provisional) as against 1.23 times as on 31 March, 2017. Total outside Liabilities to Tangible net worth (TOL/TNW) was also comfortable at 1.68 times as on March 31, 2018 (Provisional) as against 1.62 times as on March 31, 2017. Coverage metrics, interest coverage ratio and debt service coverage ratio stood at 2.88 and 1.21 times respectively in FY2018 (Provisional) as against 4.55 and 1.51 respectively in the previous year. Acuite believes that TGKTM's adequate return on capital employed (ROCE: 10.39 percent in FY2018) coupled with no major debt funded capital expenditure will continue to support the healthy financial risk profile.

Weaknesses

• Working capital intensive nature of business:

TGKTM's business is working capital intensive in nature marked by high Gross Current Assets (GCA) of 184 days in FY18 (Provisional) as against 167 days in FY17. This is primarily because the company maintains 3 to 4 months of inventory on a regular basis and provides an average credit period of 2 to 3 months. The company maintains such a large inventory as it has presence across the entire value chain. TGKTM enjoys credit period of around 3 months from its suppliers which helps cushion the working capital requirements. The company's liquidity position is adequate and will help mitigate the working capital intensive nature of the operations.

• Susceptibility to volatility in raw material prices:

TGKTM's profitability margins are susceptible to fluctuations in the raw material prices, as any volatility in the same cannot be passed on to customers immediately. Effect of volatility in raw material price is visible in FY2018; EBITDA margins declined to 15.17 percent in FY18 (Provisional) from 18.35 percent in FY17, due to the increase in the raw material price.

Outlook: Stable

Acuite believes TGKTM will maintain 'Stable' outlook over the medium term on account of its promoters' established presence and experienced management team. The company will also benefit from its comfortable financial risk profile over the medium term. The outlook may be revised to 'Positive' if there is significant and sustained improvement in its scale of operations while maintaining operating profitability and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of higher than expected debt-funded capital expenditure, stretched working capital cycle or decline in operating profitability resulting in deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	334.29	317.05	247.85
EBITDA	Rs. Cr.	50.70	58.19	52.11
PAT	Rs. Cr.	9.31	20.10	16.05
EBITDA Margin	(%)	15.17	18.35	21.02
PAT Margin	(%)	2.78	6.34	6.48
ROCE	(%)	10.39	15.52	15.31
Total Debt/Tangible Net Worth	Times	1.23	1.29	1.31
PBDIT/Interest	Times	2.88	4.55	3.08
Total Debt/PBDIT	Times	3.49	2.95	2.70
Gross Current Assets (Days)	Days	184	167	194

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

Not applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

***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 loans	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	63.00	ACUITE BBB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2
Term loans	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB+ / Stable

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About Acuité Ratings & Research:

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