

## Press Release

### Theni Guru Krishna Textile Mills Private Limited

October 04, 2019



#### Rating Downgraded and Withdrawn

<b>Total Bank Facilities Rated*</b>	Rs. 192.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable (Downgraded from ACUITE BBB+ / Stable)
<b>Short Term Rating</b>	ACUITE A3+ (Downgraded from ACUITE A2)

\* Refer Annexure for details

#### Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short-term rating to '**ACUITE A2**' (**read as ACUITE A two**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.192.00 crore bank facilities of THENI GURU KRISHNA TEXTILE MILLS PRIVATE LIMITED (TGKTM). The outlook is '**Stable**'.

The downgrade in the rating is on account of deterioration in the overall financial risk profile of the company. The operating and net profit margins of the company are declining since last three years. EBITDA margins declined to 10.31 percent in FY19 (Provisional) from 15.17 percent in FY18 and 18.35 percent in FY17. Similarly, net profit margins have declined from 6.34 per cent in FY2017 to 2.78 per cent in FY2018 and 0.50 per cent in FY2019 (Provisional).

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 38636 spindles for spinning division, 350 looms for weaving division, 402 machines for garmenting and 5.25 MW of installed windmill division, which supplies over 25 per cent of the company's power requirement.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of TGKTM to arrive at the rating.

#### Key Rating Drivers

##### Strengths

###### • **Established track record of operations and experienced management**

The rating draws comfort from the long-standing 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 over the years for procurement of raw materials at competitive cost and good credit terms. The company has reported steady growth in operating revenues over the past three years with a CAGR of 14 per cent between FY2016 and FY2019. It exports majority 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.

Acuité believes that TGKTM will benefit from the established presence in the textile industry and experienced management over the 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. Networth stood at Rs.145.24 crore as on March 31, 2019 (Provisional) against Rs.143.37 crore as on March 31, 2018. Gearing has increased to 1.38 times as on March 31, 2019 (Provisional) as compared to 1.23 times in the previous year. Total debt of Rs.200.45 crore includes working capital borrowings of Rs.120.36 crore, outstanding term loans of Rs.73.54 crore and unsecured loans from directors and relatives of Rs.6.55 crore. The company has followed a

moderate leverage policy in the past that is reflected through its average gearing of 1.30 times during the last three years. The company's cash accruals in the range of Rs.19-35 crore have supported in minimising the reliance on external debt. The cash accruals are estimated to remain in the similar range of Rs.25-32 crores against debt obligations of Rs.15-22 crores over the near to medium term. The healthy revenue levels coupled with declining operating margins have led to deterioration in the debt protection metrics. Interest coverage ratio (ICR) stood at 2.16 times in FY2019 (Provisional) against 2.88 times in FY2018, while DSCR stood at 1.07 times in FY2019 (Provisional) as against 1.21 times in FY2018. Similarly, Debt to EBITDA and NCA/TD have declined since last year. It stood at 5.28 and 0.10 times, respectively, in FY2019 (Provisional) against 3.49 and 0.15 times in FY2018.

Acuité believes that improvement in profitability will be crucial for the company to maintain its financial risk profile.

## Weaknesses

- **Working capital intensive nature of operations**

TGKT's business is working capital intensive in nature marked by high Gross Current Assets (GCA) of 187 days in FY19 (Provisional) as against 185 days in FY18. 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 textile value chain. TGKT enjoys credit period of around 3 months from its suppliers, which helps cushion the working capital requirements.

- **Susceptibility of profitability to fluctuations in raw material prices**

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 cotton prices 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. Effect of volatility in raw material price is visible in FY2019; EBITDA margins declined to 10.31 per cent in FY19 (Provisional) from 15.17 per cent in FY18 and 18.35 per cent in FY17.

Acuité believes that the company's ability to manage inventory and maintain profitability will be the key monitorables.

## Rating Sensitivities

- Decline in operating margins leading to deterioration in the financial risk profile.
- Elongation of working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

## Material Covenants

None

## Liquidity Position: Stretched

The company's liquidity is stretched, marked by net cash accruals in the range of Rs.19-35 crore against maturing debt obligations in the range of Rs.17-22 crore during the last three years. The working capital operations are intensive as marked by gross current asset (GCA) days of 187 in FY2019 (Provisional) as compared to 185 days in FY2018. The cash credit limit remained utilized at ~98 per cent during the last six months period ended August 2019. The unencumbered cash and bank balances stood low at Rs. 0.36 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.01 times as on March 31, 2019 (Provisional). 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 established market position and 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 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	367.10	334.28	317.05
EBITDA	Rs. Cr.	37.85	50.70	58.19
PAT	Rs. Cr.	1.84	9.31	20.10
EBITDA Margin	(%)	10.31	15.17	18.35
PAT Margin	(%)	0.50	2.78	6.34
ROCE	(%)	5.86	10.39	15.52
Total Debt/Tangible Net Worth	Times	1.38	1.23	1.29
PBDIT/Interest	Times	2.16	2.88	4.55
Total Debt/PBDIT	Times	5.28	3.49	2.95
Gross Current Assets (Days)	Days	187	185	167

### 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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <http://acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <http://acuite.in/view-rating-criteria-6.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
01-Oct-2018	Term Loans	Long Term	35.00	ACUITE BBB+ / Stable (Assigned)
	Cash Credit	Long Term	63.00	ACUITE BBB+ / Stable (Assigned)
	Letter of Credit	Short Term	25.00	ACUITE A2 (Assigned)
	Term Loans	Long Term	26.00	ACUITE BBB+ / Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+ / Stable (Assigned)
	Term Loans	Long Term	9.50	ACUITE BBB+ / Stable (Assigned)
	Term Loans	Long Term	1.50	ACUITE BBB+ / Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BBB+ / 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	63.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.80	ACUITE BBB / Stable (Downgraded from ACUITE BBB+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Downgraded from ACUITE A2)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB / Stable (Withdrawn)

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**About Acuité Ratings & Research:**

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