

Press Release

Theni Guru Krishna Textile Mills Private Limited

October 27, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 210.00 Cr. (Enhanced from Rs.192.00 Cr)
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.203.70 crore bank facilities of Theni Guru Krishna Textile Mills Private Limited (TGK). The outlook is '**Stable**'.

Further, Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.6.30 crore bank facilities of TGK.

TGK 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), TGK is a vertically integrated textile player and sells cotton yarn, grey fabric as well as garments. The company majorly exports made-ups to the USA health care sector. It has installed capacity of 38636 spindles for spinning division, 350 looms for weaving division, 402 machines for garments 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 TGK 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 a healthy relationship with suppliers over the years for procurement of raw materials at a competitive cost and good credit terms. The company has reported steady growth in operating revenues over the past three years with a CAGR of 13 per cent between FY2017 and FY2020 Prov. It exports majority of its overall sales to the USA health care sector, with the majority of sales from made-ups such as surgical towels, cellular blankets and cotton bags. TGK has established a relationship with USA clients accompanied with single usage of products; thus, providing good revenue visibility in the medium term.

Acuité believes that TGK 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.149.68 crore (Provisional) as on March 31, 2020 against Rs.144.09 crore as on March 31, 2019. Gearing has improved to 1.13 times (Provisional) as on March 31, 2020 as compared to 1.39 times in the previous year. Total debt of Rs.169.77 crore includes working capital borrowings of Rs.113.37 crore, outstanding term loans of Rs.51.86 crore and unsecured loans from directors and relatives of Rs.4.54 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 a 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 the deterioration in the debt protection metrics. Interest coverage ratio (ICR) stood at 2.55 times (Provisional) in FY2020 against 2.16 times in FY2019, while DSCR stood at 0.84 times in FY2020 (Provisional) as against 1.04 times in FY2019. Similarly, Debt to EBITDA has declined since last year. It stood at 4.05 times (Provisional) in FY2020 against 5.28 times in FY2019.

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

Weaknesses

- **Moderate working capital operations**

TGK's business is moderately working capital intensive in nature marked by high Gross Current Assets (GCA) of 142 days in FY2020 (Provisional) as against 187 days in FY2019. 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. TGK enjoys a credit period of around 3 months from its suppliers, which helps cushion the working capital requirements.

- **Profitability susceptible 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 the 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 FY2020 (Provisional); EBITDA margins declined to 9.10 per cent in FY20 (Provisional) from 10.31 per cent in FY19 and 15.17 per cent in FY18.

Acuite 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.
- Stretch in Gross Current Asset (GCA) days.

Material Covenants

None

Liquidity position: Adequate

The company's liquidity is adequate, 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 moderately intensive as marked by gross current asset (GCA) days of 142 days (Provisional) in FY2020 as compared to 187 days in FY2019. The cash credit limit remained utilized at ~98 per cent during the last six months period ended in September, 2020. The unencumbered cash and bank balances stood low at Rs. 0.58 crore (Provisional) as on March 31, 2020. The current ratio stood at 1.01 times (Provisional) as on March 31, 2020. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of improvement in net cash accruals.

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 a 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	459.65	367.10
PAT	Rs. Cr.	5.59	0.69
PAT Margin	(%)	1.22	0.19
Total Debt/Tangible Net Worth	Times	1.13	1.39
PBDIT/Interest	Times	2.55	2.16

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Oct-2019	Cash Credit	Long Term	63.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Term Loan	Long Term	24.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Term Loan	Long Term	22.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Cash Credit	Long Term	22.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Term Loan	Long Term	1.20	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Term Loan	Long Term	8.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Cash Credit	Long Term	10.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Term Loan	Long Term	6.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Term Loan	Long Term	5.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Proposed Bank Facility	Long Term	5.80	ACUITE BBB/Stable (Downgraded from ACUITE BBB+)
	Letter of Credit	Short Term	25.00	ACUITE A3+ (Downgraded from ACUITE A3)

	Cash Credit	Long Term	10.00	ACUITE BBB (Withdrawn)
01-Oct-2018	Term Loan	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 Loan	Long Term	26.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	9.50	ACUITE BBB+/Stable (Assigned)
	Term Loan	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 (Reaffirmed)
Term Loan	02-May-2016	Not Applicable	31-Mar-2022	12.00	ACUITE BBB /Stable (Reaffirmed)
Demand Loan of Warehouse Receipt	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB /Stable (Reaffirmed)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.50^	ACUITE A3+ (Reaffirmed)
Term Loan	Apr, 2020	Not Applicable	Sept, 2021	6.30#	ACUITE BBB /Stable (Assigned)
Term Loan	23-May,2017	Not Applicable	30-Nov-2025	27.61	ACUITE BBB /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB /Stable (Reaffirmed)
Term Loan	16-Sept-2014	Not Applicable	30-Sept-2021	0.80	ACUITE BBB /Stable (Reaffirmed)
Term Loan	14-Jan-2020	Not Applicable	31-Mar-2025	8.50	ACUITE BBB /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB /Stable (Reaffirmed)
Term Loan	24-Dec-2018	Not Applicable	30-Jun-2026	2.29	ACUITE BBB /Stable (Reaffirmed)
Term Loan	15-Dec-2018	Not Applicable	31-Jan-2026	4.00	ACUITE BBB /Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Reaffirmed)

*Sublimit - EPC/FBD/PCFC/EBR of Rs.55.00 crore of Cash Credit

^Standby Letter of Credit against GST Receivables

#Term loan under Covid-19

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About Acuité Ratings & Research:

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