

## Press Release

Theni Guru Krishna Textile Mills Private Limited

December 02, 2021



### Rating Assigned and Upgraded

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	25.00		ACUITE A2   Upgraded
Bank Loan Ratings	45.00	43.88	ACUITE BBB+   Stable   Assigned	
Bank Loan Ratings	185.00	186.12	ACUITE BBB+   Stable   Upgraded	
Total	-	255.00	-	-

### Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B Plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.210.00 Cr bank facilities of Theni Guru Krishna Textile Mills Private Limited (TGKMPL).

Acuite has also assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B Plus**) on the Rs.45.00 Cr bank facilities of Theni Guru Krishna Textile Mills Private Limited (TGKMPL). The outlook is '**Stable**'.

#### Rationale for rating upgrade

The rating upgrade factors in strong performance of TGKMPL despite the challenging external environment conditions during FY2021, ability of TGKMPL to demonstrate improvement in absolute EBITDA and EBITDA margin in FY2021 despite the moderation in the total revenue due to the impact of Covid-19 pandemic on the business operations during the Q1 of FY2021. The absolute EBITDA of TGKMPL has improved to Rs.62.83 Cr in FY2021 (Prov) against Rs.41.81 Cr in FY2020. The EBITDA margins of TGKMPL improved to 14.22 per cent in FY2021 (Prov) against 9.10 in FY2020. The improvement is attributable to decrease in raw material cost on account of procuring the raw-material at low prices, benefit from ROSCTL License Transfer (ROSC TL) incentive and gains from foreign exchange. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) has improved and stood at 4.03 times and 1.77 times, respectively in FY2021 (Prov) as against 2.55 and 1.06 times, respectively in the previous year. The rating upgrade also factors in the ability of TGKMPL to recover in the H1FY2022, despite impact on revenue during 2nd wave of Covid-19 pandemic. The recovery in demand is evident from H1FY2022 financials posted by TGKMPL. TGKMPL's revenue was recorded at Rs.198.09 Cr against Rs.190.92 Cr in H1 of FY2021.

In FY2022, TGKMPL has availed long term debt for capital expenditure towards the capacity expansion by increasing the capacity of spindles and automatic looms. TGKMPL with on-going capex plans, has maintained moderate working capital management. TGKMPL has also diversified into retail segment by catering to the retail sector in the USA. TGKMPL is expected to capitalize on the increasing demand through on-going capex plans over the near to medium term.

## About the Company

Theni Guru Krishna Textile Mills Private Limited (TGKMPL) 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), TGKMPL is a vertically integrated textile player and sells cotton yarn, grey fabric as well as garments. TGKMPL majorly exports Made-ups to USA health care sector. It has installed capacity of 43,468 spindles for spinning division, 343 looms for weaving division, 495 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 profiles of the TGKMPL to arrive at this rating.

## Key Rating Drivers

### Strengths

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

TGKMPL is promoted by Mr. Mr. T. K Ramasamy, Mr. T. K. Srinivasan, Mr. T. K. Ponraj and Mr, S. Rajasekar. The rating draws comfort from the long-standing experience of over 7 decades of the promoters of TGKMPL (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. TGKMPL has reported steady growth in operating revenues over the past 4 years with a CAGR of 9 per cent between FY2017 and FY2021 Prov. TGKMPL 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.

Acuité believes that TGKMPL will benefit from the established presence in the textile industry and experienced management over the medium term.

#### • Moderate financial risk profile

TGKMPL's financial risk profile is moderate, marked by a moderate capital structure along with moderate debt protection metrics. The EBITDA margins of TGKMPL improved to 14.22 per cent in FY2021 (Prov) against 9.10 in FY2020. The improvement is attributable to decrease in raw material cost on account of procuring the raw-material at low prices during the Covid-19 pandemic, benefit from ROSCTL License Transfer (ROSCTL) incentive and gains from foreign exchange. The PAT margins of TGKMPL has improved to 5.38 per cent in FY2021 (Prov) in comparison to 1.22 per cent in FY2020. The PAT margins in FY2021 was improved on account of improvement in the operating margins. The improvement in profitability levels vis-à-vis decrease in the interest obligations has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 4.03 times and 1.77 times respectively in FY2021 (Prov) as against 2.55 and 1.06 times respectively in the previous year.

The net worth of TGKMPL stood at Rs.173.43 Cr as on 31 March, 2021 (Prov) as against Rs.149.68 Cr as on 31 March, 2020. The improvement is on account of healthy accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands marginally deteriorated at 1.16 times as on 31 March, 2021 (Prov) as against 1.13 times as on 31 March, 2020, the deterioration is on account of significant increase in long term debt for capex plans. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands moderate at 1.48 times as on 31 March, 2021 (Prov) against 1.55 times in previous year. Moderate TOL/TNW is on account of presence of moderate leverage position of TGKMPL during the period.

The total debt of Rs.201.88 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.63.96 Cr, unsecured loans from Directors/Promoters of Rs.6.20 Cr, short term debt of Rs.109.39 Cr and

maturing portion of long term borrowings of Rs.22.33 Cr. NCA/TD (Net cash accruals to total debt) stands improved at 0.21 times in FY2021 (Prov) as against 0.14 times in FY2020.

Acuité expects the financial risk profile to remain healthy over the medium to long term period on account of moderate capital structure and stable operations of the company.

- **Capex underway towards capacity expansion and upgradation of machinery**

TGKMPL, in recent years has been incurring capex for modernization and upgradation of its machinery to cater the growing domestic and international demand. TGKMPL is majorly equipped with automated machinery which has also helped to mitigate the availability of manpower. TGKMPL is well placed in the market with spindle capacity of 43,468 spindles, 343 shuttle less and air jet looms and 495 stitching machines which is expected to aid the operations going further. The Capex is underway for increasing its spindles capacity by 3,600 spindles which is expected to be operational by FY2022. TGKMPL has availed loans for capex towards automatic shuttles less looms and air-jet looms. The management has also planned for the upgradation of sizing unit.

Acuité believes that with an ongoing growth in demand in the industry backed by repeated orders from the customers, capex underway and the improvement demonstrated in H1 of FY2022, the business risk profile of the TGKMPL is expected to improve over the medium term.

### **Weaknesses**

- **Moderate working capital management**

TGKMPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 142-188 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are majorly marked by moderate inventory and debtor days. The elevated GCA days of 188 days as on March 31, 2021 (Provisional) is on account of presence of moderate debtors amounting to nearly Rs.93.29 Cr on account of 2nd wave of covid-19 pandemic leading to delays in receivables collections. TGKMPL has diversified into retail segment in USA and coupled with the delays in shipment of container due to the pandemic, the debtors were elevated during the accounts closing in FY2021. These are partially offset by creditor days at 41 days as on March 31, 2021 (provisional). The moderate GCA cycle has led to high utilization of around 81.00 per cent of consolidated working capital requirement bank lines of Rs.120.00 Cr over the past 12 months ending October, 2021.

Acuité believes that the operations of TGKMPL will remain moderately working capital intensive on account of nature of the textile processing industry and diversification into retail segment.

- **High Customer and Supplier concentration risk on revenue profile**

TGKMPL is a vertically integrated textile player and sells cotton yarn, grey fabric and garments to both domestic and international customers. The top 10 customers of TGKMPL are contributing more than 90 per cent to the total sales in FY2021. Besides, exports customer has been contributing more than 65 per cent of the total sales during the same period, thereby depicting high customer concentration and foreign exchange risk in revenue profile. Furthermore, the top 10 suppliers are contributing nearly 75 per cent to the total purchases in FY2021. Further, it can be observed that one of the single supplier has been contributing more than 35 per cent of the total purchases in FY2021, thereby depicting moderate supplier concentration risk in revenue profile.

Acuité believes that there exists high customer and supplier concentration risk in the revenue profile of TGKMPL. However, the risk of concentration is mitigated to an extent on account of long standing relationship of the company and promoters with its major customers and supplier. TGKMPL also undertakes forward contracts to mitigate the risk to an extent.

- **Susceptibility to fluctuation in raw material prices**

TGKMPL profitable margins are susceptible to fluctuations in the prices of major raw material i.e. Raw cotton. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in

adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value Chain.

Acuité believes that TGKMPL's business profile and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized.

### **Liquidity Position: Adequate**

TGKMPL's liquidity is adequate marked by healthy generation of net cash accruals in FY2021 to its maturing debt obligations and modest level of unencumbered cash and bank balance. TGKMPL has generated cash accruals in the range of Rs.18.66-41.48 Cr during last three years ending FY2021(Prov) as against its long term debt obligations of Rs.16.74-21.89 Cr for the same period. TGKMPL's working capital is moderate as evident from Gross Current Asset (GCA) of 188 days as on March, 2021(Prov) as compared to 142 days as on March, 2020. The current ratio stood at 1.33 times as on 31 March 31 2021(Prov) against 1.01 in previous year. The moderate GCA cycle has led to moderate utilization of around 81 per cent of working capital requirement bank lines of Rs.120.00 Cr over the past 12 months ending October, 2021. TGKMPL maintained unencumbered cash and bank balances of Rs.0.41 Cr as on March 31 2021(Prov) against Rs.0.58 Cr in previous year. In addition to this, TGKMPL has investments in form of term deposit worth Rs.6.52 Cr as on March 31, 2021 (Prov). Acuité believes that the liquidity of TGKMPL to remain adequate on account of stable scale of operations and healthy capital structure. TGKMPL is expected to generate NCA in range of Rs.42.07-52.20 Cr against maturing debt obligations in range of Rs.22.33-26.62 Cr over the medium term.

### **Rating Sensitivities**

Positive

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Sustainable improvement in realization per unit of the products offered by the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any deterioration in volume and realization per unit of the products offered by the company.
- Any weakening of financial risk profile of the company.

### **Material Covenants**

None

### **Outlook: Stable**

Acuité believes that TGKMPL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and capex underway for upgradation of machinery. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and improvement in volumes and per unit realizations of the products offered by the company leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case TGKMPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

## Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	441.83	459.65
PAT	Rs. Cr.	23.75	5.59
PAT Margin	(%)	5.38	1.22
Total Debt/Tangible Net Worth	Times	1.16	1.13
PBDIT/Interest	Times	4.03	2.55

### 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
27 Oct 2020	Term Loan	Long Term	2.29	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	22.00	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	0.80	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BBB   Stable (Reaffirmed)
	Letter of Credit	Short Term	25.00	ACUITE A3+ (Reaffirmed)
	Warehouse Receipt Financing	Long Term	20.00	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	6.30	ACUITE BBB   Stable (Reaffirmed)
	Standby Line of Credit	Short Term	8.50	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	27.61	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	63.00	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	12.00	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	8.50	ACUITE BBB   Stable (Reaffirmed)
04 Oct 2019	Cash Credit	Long Term	63.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Term Loan	Long Term	5.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Term Loan	Long Term	8.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Cash Credit	Long Term	10.00	ACUITE BBB (Withdrawn)
	Proposed Bank Facility	Long Term	5.80	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Cash Credit	Long Term	22.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Term Loan	Long Term	24.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Term Loan	Long Term	6.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Term Loan	Long Term	22.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)
	Letter of Credit	Short Term	25.00	ACUITE A3+ (Downgraded from ACUITE A2)
Cash Credit	Long Term	10.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)	
Term Loan	Long Term	1.20	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Stable)	
	Term Loan	Long Term	35.00	ACUITE BBB+   Stable (Assigned)

01 Oct 2018	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**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Initial Quantum (Rs. Cr.)</b>	<b>Net Quantum (Rs. Cr.)</b>	<b>Rating</b>
State Bank of India	Not Applicable	Term Loan	02-05-2016	Not available	31-03-2022	3.46	3.46	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	63.00	63.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	25.00	ACUITE A2   Upgraded ( from ACUITE A3+ )
Karur Vysya Bank	Not Applicable	Term Loan	23-05-2017	Not available	30-04-2025	23.95	23.95	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
South Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	10.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
Tamilnad Mercantile Bank Limited	Not Applicable	Term Loan	14-01-2020	Not available	31-03-2025	7.00	7.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
IDBI Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	22.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
South								ACUITE BBB+   Stable



Indian Bank	Not Applicable	Term Loan	24-12-2018	Not available	30-04-2026	1.90	1.90	Upgraded ( from ACUITE BBB )
Indian Overseas Bank	Not Applicable	Term Loan	15-12-2018	Not available	31-01-2026	3.20	3.20	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
State Bank of India	Not Applicable	Term Loan	30-03-2020	Not available	30-03-2025	2.11	2.11	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
State Bank of India	Not Applicable	Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	20.00	20.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
HDFC Bank Ltd	Not Applicable	Term Loan	18-06-2021	Not available	09-07-2026	16.75	16.75	ACUITE BBB+   Stable   Assigned
IDBI Ltd	Not Applicable	Working Capital Term Loan	30-12-2020	Not Applicable	30-12-2025	7.13	7.13	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	07-01-2021	Not Applicable	07-01-2026	20.00	20.00	ACUITE BBB+   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.01	8.01	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.12	1.12	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	07-01-2021	Not available	07-06-2027	14.30	14.30	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )
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Karur Vysya Bank	Not Applicable	Working Capital Term Loan	08-12-2020	Not Applicable	08-12-2025	3.72	3.72	BBB+   Stable   Upgraded ( from ACUITE BBB )
South Indian Bank	Not Applicable	Working Capital Term Loan	08-04-2021	Not Applicable	08-04-2026	2.35	2.35	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB )

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### About Acuité Ratings & Research

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