

## Press Release

Theni Guru Krishna Textile Mills Private Limited

February 20, 2023



### Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BBB   Stable   Assigned	-
Bank Loan Ratings	230.00	ACUITE BBB   Stable   Downgraded	-
Bank Loan Ratings	25.00	-	ACUITE A3+   Downgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	280.00	-	-

### Rating Rationale

Acuite has downgraded its 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 A3+**' (read as **ACUITE A three plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on its Rs.255 Cr bank facilities of Theni Guru Krishna Textiles Mills Private Limited (TGKMPL). The outlook is '**Stable**'.

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the additional bank facilities of Rs.25 Cr of Theni Guru Krishna Textiles Mills Private Limited (TGKMPL). The outlook is '**Stable**'.

#### Rationale for rating downgrade

The rating is downgraded on account of moderation in operating and financial performance of TGKMPL. The Company generated an operating income of Rs.510.95 Cr in FY2022 as against Rs.441.79 Cr in FY2021, while the margins declined to 9.86 percent from 14.21 percent for the same period. The Company has generated a revenue of Rs. 380 Cr in 9MFY23 and is expected to close the year in the range of Rs.500-550 Cr with an operating profitability of 9-10 percent. The financial risk profile of the Company continues to remain moderate, however, deterioration is noted in the debt protection metrics of the Company marked by subdued interest coverage and debt service coverage ratio and increased Debt to EBITDA levels. The liquidity position of the Company is stretched marked by tightly matching cash accruals against repayment obligations and high bank limit utilization. Going forward, the Company's ability to improve its scale of operations and profitability levels while maintaining its capital structure will remain a key rating monitorable.

#### 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 and 7MW of solar power, which supplies over 40 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. 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 exports majority of its overall sales to the USA health care sector, with the majority of sales from madeups such as surgical towels, cellular blankets and cotton bags.

The Company generated an operating income of Rs.510.95 Cr in FY2022 as against Rs.441.79 Cr in FY2021, while the margins declined to 9.86 percent from 14.21 percent for the same period. The Company has generated a revenue of Rs. 380 Cr in 9MFY23 and is expected to close the year in the range of Rs.500-550 Cr with an operating profitability of 9-10 percent.

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:**

The financial risk profile of the company is moderate marked by moderate net worth, overall gearing and below average debt protection metrics. The net worth of the company stood at Rs.182.29cr as on March 31, 2022 as against Rs.\_441.79\_Cr as on March 31, 2021. This improvement is on account of accretion of net profit to reserves. The gearing level of the company is moderate at 1.31 times as on March 31, 2022 against 1.16 times in previous year. The total debt of the Company rose to Rs. 239.47 Cr as on March 31, 2022 primarily on account of increase in long term debt availed for the purpose of capex for machinery and enhancement in fund based short term debt. The total debt included Rs.\_85.18Cr of long term borrowing, Rs. \_108.71 Cr of short term debts as on March 31, 2022. Driven by increased debt levels and moderation in profitability margins, the debt protection metrics of the Company moderated. The Interest coverage ratio declined to 2.62 times as on March 31, 2022 from 4.03 times as on March 31, 2021. Debt service coverage ratio declined to 1.13 times as on March 31, 2022 from 1.71 times in previous year and TOL/TNW stood at 1.71 times as on March 31, 2022. Debt- EBITDA deteriorated to 4.97 times as on March 31, 2022 from 3.25 times in FY21.

Acuite believes that the financial risk profile of the company will continue to remain moderate over the medium term in absence of any major debt funded capex plan.

## **Weaknesses**

#### **Working capital intensive nature of operations:**

The operations of the Company are working capital intensive marked by GCA days of 187 days as on March 31, 2022 as against 186 days as on March 31, 2021. The GCA days are driven by high inventory and debtor days which stood at 93 days and 65 days respectively as on March 31, 2022 as against 92 and 88 days respectively as on March 31, 2021. The Company

receives a credit period of ~60 days from its suppliers. The average bank limit utilisation stood high ~90 percent for the past 12 months ending December 2022.

Acuite believes further elongation of working capital cycle will remain a key rating sensitivity.

### **High Customer Concentration and Supplier concentration risk on the revenue profile:**

TGKMPL is a vertically integrated textile player and sells its products in both international and domestic market. The top 10 customers of TGKMPL are contributing more than 90 percent of the revenue in FY22 and export customer has been contributing more than 65 percent of the total sales during FY22, this draws high customer concentration and foreign exchange risk on the revenue profile of the company. The top 10 suppliers are contributing more than 95 percent of the purchases and single supplier is contributing more than 45 percent of purchases in FY22. This draws high supplier concentration risk on the revenue profile of the company.

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.

### **Rating Sensitivities**

- Significant and sustainable improvement in the scale of operations while maintaining the profitability margins and capital structure
- Any deterioration in working capital cycle and liquidity profile of the company.

### **Material covenants**

None

### **Liquidity Position: Stretched**

TGKMPL has stretched liquidity position marked by tightly matching cash accruals against repayment obligations and high bank limit utilisation. TGKMPL has generated net cash accruals of Rs.27.76 Cr in FY22 against debt obligation of Rs.22.32 Cr. The company is expected to generate net cash accruals in the range of Rs.31-37 Cr. against repayment obligations of Rs.19-30 Cr.. The Gross current assets days stood at 187 days as on March 31, 2022. The average bank limit utilisation of fund based facilities stood at ~91.00 per cent for the 12 months ending December, 2022. TGKMPL had low level of unencumbered cash and bank balance of Rs.0.61 Cr and its current ratio stood at 1.33 times as on March 31, 2022 against 1.33 times in previous year.

### **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

moderate financial risk profile. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and profitability while maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case TGKMPL of 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 position.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	510.95	441.79
PAT	Rs. Cr.	8.87	23.75
PAT Margin	(%)	1.74	5.38
Total Debt/Tangible Net Worth	Times	1.31	1.16
PBDIT/Interest	Times	2.62	4.03

### 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-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Letter of Credit	Short Term	25.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	23.95	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	3.20	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Cash Credit	Long Term	63.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Working Capital Term Loan	Long Term	2.35	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)

02 Dec 2021	Term Loan	Long Term	3.46	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Cash Credit	Long Term	22.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	16.75	ACUITE BBB+   Stable (Assigned)
	Warehouse Receipt Financing	Long Term	20.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	1.90	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	7.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Cash Credit	Long Term	10.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Proposed Bank Facility	Long Term	1.12	ACUITE BBB+   Stable (Assigned)
	Working Capital Term Loan	Long Term	20.00	ACUITE BBB+   Stable (Assigned)
	Working Capital Term Loan	Long Term	3.72	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Proposed Bank Facility	Long Term	8.01	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	14.30	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	2.11	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Working Capital Term Loan	Long Term	7.13	ACUITE BBB+   Stable (Assigned)
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)
		Long		
	Term Loan	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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	63.00	ACUITE BBB   Stable   Downgraded
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BBB   Stable   Downgraded
South Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB   Stable   Downgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A3+   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.02	ACUITE BBB   Stable   Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	45.94	ACUITE BBB   Stable   Downgraded
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.19	ACUITE BBB   Stable   Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.71	ACUITE BBB   Stable   Downgraded
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.08	ACUITE BBB   Stable   Downgraded
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.59	ACUITE BBB   Stable   Downgraded
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.31	ACUITE BBB   Stable   Downgraded
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.05	ACUITE BBB   Stable   Downgraded
Tamil Nadu Mercantile Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.19	ACUITE BBB   Stable   Downgraded
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.77	ACUITE BBB   Stable   Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.15	ACUITE BBB   Stable   Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE BBB   Stable   Assigned
State Bank	Not	Warehouse Receipt	Not	Not	Not	Simple	20.00	ACUITE BBB   Stable

- GECL loan from SBI of Rs.26.71Cr (1.71Cr + 25.00Cr) is referred as Term loan.
- GECL loan from KVB of Rs.7.05Cr is referred as Term Loan.
- GECL Loan from IDBI of Rs.8.19Cr is referred as Term loan.

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Katta Akhil Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:akhil.katta@acuite.in">akhil.katta@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

## About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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