Press Release

Arun Spinning Mills Private Limited

January 16, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 12.70 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* *Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' **(read as ACUITE B)** and short term rating of **'ACUITE A4' (read as ACUITE A four)** to the Rs. 12.70 crore bank facilities of Arun Spinning Mills Private Limited (ASPL). The outlook is **'Stable'**.

ASPL, incorporated in 1997, is currently managed by Mr. P. Subbaraman. The company manufactures combed carded and open ended cotton yarn. Located in Rajapalayam (Tamil Nadu), ASPL's spinning units currently have a combined installed capacity of 22176 spindles and 608 rotors manufacturing cotton yarn of counts 20s to 80s.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ASPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The company is promoted by Mr. P. Subbaraman, who has around two decades of experience in the textile industry. The company has gradually expanded to the present total capacity of 22176 spindles at its plants in Rajapalayam. The proximity to the cotton belt and promoter's experience in textile industry has helped to build healthy relationships with its suppliers and customers to ensure a steady raw material supply and large offtake.

The operations are supported by captive wind mill unit of 2.5 MW. The company procures cotton (major raw material) from suppliers in Telengana and Tamil Nadu regions. For FY2018, top ten customers of the company contributed to ~58 percent of total revenues providing moderate customer concentration risk. Around 85 percent of its revenues come from domestic market and the company also exports to South East Asian countries such as China, Philippines and Bangladesh, among others. Acuité believes that promoter's extensive experience in the textile industry would aid the business risk profile of the company over the medium term.

Weaknesses

- **Weak financial risk profile**

The financial risk profile is marked by high gearing (debt-to-equity) levels, modest capital structure and debt protection metrics. The gearing has deteriorated to 3.15 times as on March 31, 2018 from 2.77 times as on March 31, 2017; the same was due to increase in working capital requirement led by increased inventory levels. Also, total outside liabilities to total net worth (TOL/TNW) stood high at 4.49 times in FY2018 against 4.1 times in FY2017. Net worth stood modest at Rs.8.34 crore in FY2018 as compared to Rs.7.89 crore. Modest net cash accruals and debt has led to modest net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.08 times and 1.76 times in FY2018 vis-à-vis 0.13 times and 1.77 times in FY2017, respectively. The company's cash accruals are expected to be around Rs.2.00 crore against repayment obligations of about Rs.0.75 crore. Acuité believes that with moderate profitability margins and intense working capital requirements, the financial risk profile is expected to be at similar levels over the medium term.

- **Intense working capital operations**

  The company has intense working capital operations as evident from its Gross Current Assets (GCA) of 228 days as on March 31, 2018 as against 133 days as on March 31, 2017. The company maintains an inventory of about three months. Intense working capital management has led to full utilisation of its working capital limits over the past six months ended September 2018. Cotton is available seasonally; however, manufacturing and sales operations are carried out throughout the year and hence, the operations continue to be working capital intensive over the medium term.

- **Dip in revenues and susceptibility of operating margins to volatility in raw material prices**

  Operating revenues of ASPL have deteriorated in FY2018 to Rs.54.5 crore from Rs.72.8 crore in FY2017 and Rs.68.4 crore in FY2016. This is majorly driven by loss of revenues from grey fabric manufactured on job contract basis by related entity; which was under the common ownership and management of few promoters till July 2017. Going forward, major revenues of around Rs.50-55 crore is expected from cotton yarn. Also, Operating margins of cotton spinners are susceptible to changes in cotton prices, which is highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and government regulations on changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. Operating margins declined from 9.7 percent in FY2016 to 8.1 percent in FY2018. Sustainability of the revenues and profitability are key rating sensitivity factors over the medium term.

Outlook: Stable

Acuité believes that ASPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	54.52	72.84	68.40
EBITDA	Rs. Cr.	4.41	5.77	6.62
PAT	Rs. Cr.	0.45	0.61	0.71
EBITDA Margin	(%)	8.08	7.92	9.68
PAT Margin	(%)	0.83	0.84	1.03
ROCE	(%)	10.25	12.94	26.65
Total Debt/Tangible Net Worth	Times	3.15	2.77	2.99
PBDIT/Interest	Times	1.76	1.77	2.20
Total Debt/PBDIT	Times	5.29	3.50	2.92
Gross Current Assets (Days)	Days	228	133	154

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

None

Any other information

None

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE B / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Sethu Madhav Analyst - Rating Operations Tel: 040-40055480 sethu.madhav@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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