

Press Release

Arun Spinning Mills Private Limited

March 05, 2020

Rating Reaffirmed



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

Acuite has reaffirmed the long term rating of **'ACUITE B' (read as ACUITE B)** and short term rating of **'ACUITE A4' (read as ACUITE A four)** on Rs. 12.70 crore bank facilities of Arun Spinning Mills Private Limited (ASMPL). The outlook is **'Stable'**.

The rating reaffirmation reflects experienced management and their established track record of operations. However, it is constrained by average financial risk profile, working capital intensive operations and susceptibility of margins to volatility in raw material prices and high competition.

ASMPL was incorporated in 1997 and is currently managed by Mr. P. Subbaraman who is has an experience of two decades in the textile industry. The company manufactures open ended cotton yarn and grey fabric. Located in Rajapalayam, Tamil Nadu, ASMPL's spinning units currently have a combined installed capacity of 22176 spindles and 608 rotors manufacturing cotton yarn of counts 40s to 80s.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the ASMPL to arrive at this rating.

Key Rating Drivers

Strengths

- Established Track record of operations and experienced management**

ASMPL 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, Tamil Nadu. The proximity to the cotton belt and promoter's experience in textile industry has helped to build healthy relationship with its suppliers and customers to ensure a steady raw material supply. The operations are supported by captive wind mill unit of 2.5 MW. The company procures cotton (raw material) majorly from suppliers in Telengana. Around 85 percent of its revenues come from domestic market and the company also exports to Myanmar.

Acuite believes that ASMPL will continue to benefit from the promoter's established presence in the textile industry and its improving business risk profile over the medium term

Weaknesses

- Below average financial risk profile**

The financial risk profile of the company is below-average reflected in high gearing (Debt-Equity ratio) and total outside liabilities to tangible network (TOL/TNW). Its gearing is at 2.48 as on March 31, 2019 as against 3.15 as on March 31, 2018; further its TOL/TNW is high at 3.50 times as on March 31, 2019 as against 4.49 times in FY2018. The company has modest network of Rs. 8.96 crore as on March 31, 2019 as against Rs.8.34 crore as on March 31, 2018. Interest coverage ratio (ICR) is moderate 2.00 times for FY2019 as against 1.76 times for FY2018. Acuite believes that modest accruals, the financial risk profile is expected below average over the medium term.

- Intense working capital operations**

The company has intense working capital operations as evident from its Gross Current Assets (GCA) of 210 days for FY2019 as against 228 days for FY2018. This was mainly on account of high inventory holding period of 167 days in FY2019 as against 182 days in FY2018. Intense working capital management has led to full

utilization of its working capital limits over the past six months ended December 2019. Acuite believes that the operations continue to be working capital intensive over the medium term.

• Intense competition and highly fragmented industry

The company operates in a highly competitive and highly fragmented textile industry and faces competition from established brands as well as unorganized players. This impacts the bargaining power of the firm and margins, thereof.

Liquidity position: Stretched

Liquidity profile of the company is stretched marked by current ratio of 1.21 times for as on 31 March 2019. ASMPL generated cash accruals of Rs.1.94 crore for FY2019 against debt of Rs.0.69 crore for FY2019. ASMPL's operations were working capital intensive marked by GCA days of 210 for FY2019. The reliance on working capital borrowings remained high with average utilization of working capital limits at 98 percent for last six months ending December 2019. The company maintains unencumbered cash and bank balances of Rs.0.13 crore as on March 31, 2019. Acuite believes that the liquidity of company is likely to remain stretched over the medium term on account of cash accruals against the repayment obligations over the medium term.

Rating Sensitivities

- Scaling up of operations, while achieving sustained improvement in operating margins
- Any deterioration in working capital leading to higher reliance on external borrowings

Material Covenants

None

Outlook: Stable

Acuite believes ASMPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case of growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	52.11	54.52
PAT	Rs. Cr.	0.62	0.45
PAT Margin	(%)	1.20	0.83
Total Debt/Tangible Net Worth	Times	2.48	3.15
PBDIT/Interest	Times	2.00	1.76

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>
- 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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
16-Jan-19	Cash Credit	Long term	10.00	ACUITE B/Stable (Assigned)
	Term Loan	Long term	1.20	ACUITE B/Stable (Assigned)
	Bills Discounting	Short Term	1.50	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B/Stable (Reaffirmed)
Term loans	October 2016	10.50%	May 2021	1.20	ACUITE B/Stable (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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