

Press Release

Thangavel Fabrics Private Limited

April 15, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.40.18 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.40.18 crore bank facilities of THANGAVEL FABRICS PRIVATE LIMITED (TFPL). The outlook is '**Stable**'.

Erode based, Thangavel Fabrics Private Limited (TFPL), is engaged in manufacture of linen fabric, viscose fabric, pure cotton yarn. TFPL was incorporated in January 2005, by merging four proprietorship concerns promoted by Mr. A. Thangavel. These proprietorship concerns were engaged in manufacture of fabric since 1975. The promoters, family and friends collectively hold 100% shareholding in the company.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of TFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

TFPL is promoted by Mr. A Thangavel who has more than three decades of experience in the textile industry. The promoters' family collectively hold 100% shareholding in the company. The day-to-day operations are however handled by Mr. A. Thangavel's sons, Mr. T Vijayaragavan and Mr. V T Jayachandran who have more than two decades of experience in the textile industry. The experience of the promoters and presence in the market has helped the company maintain long term relationship with its customers and suppliers. The company has reported turnover of Rs.68.77 Cr in FY2019 and registered a CAGR of 2.54 percent over two years. The Company for 9MFY2020 it has achieved Rs.64.17 Cr.

Acuité believes that the extensive experience of the promoters and relationship with its customers and suppliers would help the company in improving its business profile and its ability to scale up over the medium term.

- **Moderate financial risk profile**

TFPL's financial risk profile is moderate, marked by modest net worth, low gearing and moderate debt protection metrics. The tangible net worth stood modest at Rs.15.20 Cr as on March 31, 2019. The net worth has grown gradually from Rs.11.83 Cr as on March 31, 2017. The growth in net worth is fueled by unsecured loans infused by the promoters of Rs.2.84 Cr and healthy accretion to reserves. The Gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) stood at 1.28 times and 3.26 times as on March 31, 2019. The total debt stood at Rs.19.38 Cr as on March 31, 2019, which comprises of long-term debt of Rs.5.92 Cr and short-term debt of Rs.13.46 Cr. The gearing is expected to be in the around 0.84 to 1.22 times over the medium term. TFPL has incurred a capital expenditure of Rs.11.40 Cr for adding additional loom capacity which has been funded by term loans of Rs.7.40 Cr and remaining by internal accruals.

TFPL has moderate profitability margin in the range of 7-8 percent over the last three year ended FY2019. The moderate profitably levels vis-à-vis high debt level has resulted in moderate debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 1.53 and 1.45 times respectively for FY2019. The company reported net cash accruals of Rs.1.74 Cr against nil debt repayment obligations in FY2019. The net cash accruals to total debt (NCA/TD) stood at 0.09 times in FY2019.

Acuité expects the financial risk profile to improve over the medium term on account of improving net worth, absence of significantly debt funded capex and moderate profitability margins.

Weaknesses

• Working capital intensive operations

TFPL's operations are working capital intensive as evident from its Gross Current Assets (GCA) of 230 days IN FY2019 as against 206 days in FY2018. The company maintains about six months of inventory levels, and offers credit of about six months to its clientele; resulted in receivable days of about 139 in FY2019 (129 days in FY2018). The inventory days stood at 99 days in FY2019 (86 days in FY2019). The company pays its creditors as and when the payment is received from the customers which led to high creditors days at 225 days in FY2019 (176 days in FY2018). Working capital intensive operations lead to high utilisation of its working capital limits at about 92 percent over the eleven months ended February 2020.

Acuité believes that basis the business model; the operations continue to be working capital intensive over the medium term.

• Susceptibility of operating margins to volatility in raw material prices

Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditized product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and government regulations of 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.

Rating Sensitivities

- Scaling up operations while achieving sustained improvement in topline and profitability margins
- Stretch in working capital operations leading to liquidity constraints

Material Covenants

The company shall not withdraw the loans/deposits secured from the directors without prior consent of the bank.

Liquidity: Adequate

The liquidity of the company is adequate marked by adequate net cash accruals against nil debt repayments. Net cash accruals are estimated to remain around Rs.2.20 – 3.80 crore during 2020-22, while its repayment obligations are expected to be Rs.1.13 Cr crore; which gives adequate comfort for the incremental working capital requirements in the medium term. The current ratio stood at 1.13 times as on March 31, 2019. The Company also has unencumbered cash and bank balance of Rs.0.11 crore as on March 31, 2019. However, the liquidity is partly constrained due to working capital intensive operations which resulted in high bank limit utilization of 92 percent through 11 months ending February 2020. Acuité believes the liquidity of TFPL is expected to remain adequate on account of healthy cash accruals against debt repaying obligations though partly remain constrained by the working capital operations.

Outlook: Stable

Acuité believes that TFPL will maintain a 'Stable' outlook over the medium term from its promoter's experience and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or any significant debt-funded capex 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.	68.77	65.65
PAT	Rs. Cr.	0.89	0.74
PAT Margin	(%)	1.29	1.12
Total Debt/Tangible Net Worth	Times	1.80	1.65
PBDIT/Interest	Times	1.53	1.66

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

None

Any other information

None

Applicable Criteria

- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
Open Cash Credit	Not Applicable	Not Applicable	Not Applicable	#15.00	ACUITE BB+/Stable
Term Loan	21-04-2018	Not Applicable	30-09-2023	7.40	ACUITE BB+/Stable
UBD/FDBP/FUBD/PSFC	Not Applicable	Not Applicable	Not Applicable	8.30	ACUITE A4+
ILC/FLC	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	0.18	ACUITE A4+

#Sublimit PCL/PCFC of Rs.5.00 Cr

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.