

## Press Release

### Thangavel Fabrics Private Limited

April 27, 2022

### Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.25	ACUITE BB   Stable   Upgraded	-
Bank Loan Ratings	21.93	-	ACUITE A4+   Upgraded
Total Outstanding Quantum (Rs. Cr)	40.18	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE D**' (read as **ACUITE D**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.40.18 Cr bank facilities of Thangavel Fabrics Private Limited (TFPL). The outlook is 'Stable'.

### Rationale for rating upgrade:

The upgrade in the rating reflects the improvement in the operating & profitability margins, expected improvement in the revenues & margins going forward, moderate financial risk profile with moderate debt protection metrics and adequate liquidity position marked by adequate cash accruals against moderate repayment obligations with timely repayment of debt obligations.

### About the Company

Erode based, Thangavel Fabrics Private Limited (TFPL), is engaged in manufacture of linen fabric, viscose fabric and 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. Currently, the company has three manufacturing units in Erode, Tamil Nadu with a total weaving capacity of 81 auto looms (approximately 25,000 meters per day). The promoters of the company are Mr. A. Thangavel, Mr. T. Vijayaragavan, Mr. J. V. Thangavel and Mr. T. Thangamani. The promoters, family and friends collectively hold 100% shareholding in the company.

### Analytical Approach

Acuite 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 other promoters of the company are Mr. T Vijayaragavan, Mr. J. V. Thangavel and Mr. T. Thangamani 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.

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**

Financial risk profile of TFPL is moderate marked by moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 1.21 times as on March 31, 2021 against 1.20 times as on March 31, 2020. TOL/TNW stood at 2.58 times as on March 31, 2021 against 2.78 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.18.57 crore (includes quasi equity of Rs.3.19 crore) as on March 31, 2021 against Rs.17.79 crore (includes quasi equity of Rs.2.99 crore) as on March 31, 2020. Of the total debt of Rs.22.38 crore as on March 31, 2021, long-term debt stood at Rs.3.75 crore, short-term debt stood at Rs.17.45 crore and CPLTD stood at Rs.1.19 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.62 times and 0.09 times respectively in FY2021; while DSCR stood at 1.18 times in FY2021.

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.

### **>Improvement in the operating margins**

The operating margin of the company stood at 12.81 percent in FY2021 as against 9.05 percent in FY2020. In FY2021, due to Covid-19, China who was number one exporter of textiles was blacklisted by America and the export market. So, this became a boon for India and all textile companies started doing very well. Despite the lockdown faced by company, the EBITDA margins improved in FY2021.

Acuité believes that the operating margins are also expected to improve over the medium term.

## **Weaknesses**

### **>Working capital intensive operations**

TFPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 416 days in FY2021 against 254 days in FY2020. The high GCA days are majorly due to high inventory and receivable days. This is majorly due to the impact of covid-19. The inventory days stood at 206 days in FY2021 against 106 days in FY2020. The company maintains an inventory holding policy of 5 months (130-150 days) on an average to cater to spot orders. The debtors' days stood at 190 days in FY2021 against 133 days in FY2020. The credit period given to customers is around 4-5 months (120-150 days). The creditors' days stood at 377 days in FY2021 against 239 days in FY2020. The company enjoys a credit period of 5 months (150 days) from their suppliers. The creditors days are high due to back to back payment mechanism followed by the management. Fabric manufacturing is very fragmented and unorganized marked, so credit period is long. However, fund-based limits remains utilized at 98.53 percent for last 6 months ended March, 2022 and non-fund based limits remained utilized at 73.50 percent for last 6 months ended March, 2022.

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

### **>Decline in the operating income in FY2021**

The turnover of TFPL stood at Rs.44.37 crore in FY2021 against 71.00 crore in FY2020. The turnover declines in FY2021 majorly due to the impact of covid-19. The Company has

achieved turnover of Rs.54.47 crore for FY2022. The company has orders in hand worth Rs.22.20 crore as on date which is expected to be completed in Q1FY2023. This gives adequate revenue visibility over the medium term.

Acuité believes that the operating income of the company is expected to improve over the medium term.

### Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

### Material covenants

None

### Liquidity Position: Adequate

TFPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.1.74 crore – Rs.2.63 crore during the last three years through FY2019-21 against moderate repayment obligations of Rs.1.19 crore during the same period. It is expected to generate cash accruals in the range of Rs.3.42 crore – Rs.5.77 crore over the medium term, against moderate repayment obligations in the range of Rs.1.32 crore – Rs.2.04 crore. Unencumbered cash and bank balances stood at Rs.0.50 crore as on March 31, 2021 with a current ratio of 1.22 times in the same period. Liquid investments stood at Rs.2.66 crore as on March 31, 2021. However, fund-based limits remains utilized at 98.53 percent for last 6 months ended March, 2022 and non-fund based limits remained utilized at 73.50 percent for last 6 months ended March, 2022.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

### Outlook: Stable

Acuité believes that TFPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	44.37	71.00
PAT	Rs. Cr.	0.58	0.95
PAT Margin	(%)	1.31	1.33
Total Debt/Tangible Net Worth	Times	1.21	1.20
PBDIT/Interest	Times	1.62	1.81

### 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>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jun 2021	Term Loan	Long Term	7.40	ACUITE D (Downgraded and Issuer not co-operating*)
	Bills Discounting	Short Term	8.30	ACUITE D (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	15.00	ACUITE D (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Short Term	0.18	ACUITE D (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.30	ACUITE D (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	9.00	ACUITE D (Downgraded and Issuer not co-operating*)
15 Apr 2020	Letter of Credit	Short Term	9.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BB+   Stable (Assigned)
	Bills Discounting	Short Term	8.30	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.30	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	0.18	ACUITE A4+ (Assigned)
	Term Loan	Long Term	7.40	ACUITE BB+   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
DBS Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A4+   Upgraded ( from ACUITE D )
DBS Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+   Upgraded ( from ACUITE D )
DBS Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB   Stable   Upgraded ( from ACUITE D )
DBS Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+   Upgraded ( from ACUITE D )
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.63	ACUITE A4+   Upgraded ( from ACUITE D )
DBS Bank Ltd	Not Applicable	Term Loan	20-07-2018	11.00	20-07-2024	3.25	ACUITE BB   Stable   Upgraded ( from ACUITE D )

**Note:** Term Loan includes sublimit of FLC (DP/DA: upto 90 days) of Rs.3.47 crore.

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### 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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