



Press Release

ASHOK TEXTILE MILLS PRIVATE LIMITED (ERSTWHILE SARANYA SPINNING MILLS PRIVATE LIMITED)

August 03, 2023

Rating Assigned and Reaffirmed

| Product | Amt(Cr) | Long Term Rating | Short Term Rating |
|---|---------|----------------------------------|-------------------------|
| Bank Loan Ratings | 104.00 | ACUITE BB+ Stable Assigned | - |
| Bank Loan Ratings | 102.00 | ACUITE BB+ Stable Reaffirmed | - |
| Bank Loan Ratings | 3.00 | - | ACUITE A4+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 209.00 | - | - |

Rating Rationale

Acuite has reaffirmed 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'**) on the Rs.105.00 Cr bank facilities of Ashok textile mills private limited (ATMPL). The outlook is '**Stable**'.

Further, Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 104.00 Cr bank facilities of ATMPL. The outlook is '**Stable**'.

The rating is reaffirmed on account of deterioration in the financial risk profile of ATMPL marked by higher than estimated increase in overall gearing and declining debt protection metrics. ATMPL has undertaken capital expenditure towards increasing its production capacity by adding 8 vortex machines, 5 Air-jet spinning machines, 12 Air-jet looms and enhanced its solar power generation capacity to 12.5 MW. The total capex is of Rs. 160 Cr, which has been funded by Rs. 132 Cr of debt and the balance by internal accruals. Around Rs. 122 Cr of the capex is capitalized till FY2023. The remaining capex of Rs.38Cr is estimated to be completed in FY 2024.. The overall gearing rose to 4.21 times as on March 31, 2022 as against 2.41 times as on March 31, 2021 and estimated to be around 4.19 times in FY2023. The DSCR reduced to 1.06 times in FY2022 as against 1.36 times in FY2021 and estimated to be 1.38 times in FY2023. The debt to EBITDA of the company stood at 6.68 times as on March 31, 2022 as against 5.05 times as on March 31, 2021 and it is estimated to be 4.45 times in FY2023.

The rating continues to derive strength from the promoters' extensive industry experience, established track record and integrated nature of operations and improvement in operating performance of the Company marked by higher operating income and range bound operating margins. The rating albeit is constrained by its susceptibility to volatility in raw material prices and supplier concentration risk.

About the Company

Incorporated in 1995 by Mr. Ashok Kumar, Saranya Spinning Mills Private Limited manufactures blended yarn and blended fabric and made-ups. The company has manufacturing plants at Ponneri, Namakkal (Tamil Nadu). The company has a capacity to produce yarn of 7,518 metric tons per annum with 12,000 spindles, 8 Vortex machines, and 5 air jet spinning machines. It has 54 airjet looms for own production and 116 looms for Job work production

(weaving plant) to produce 20 lakh meters capacity (mts) per month. ATMPL also has a capacity produce 4, 50, 000 PCs made ups per annum. The company mainly produces blended yarns of 30-60 counts. The plant has a captive power plant of 12.5 mega-watt (MW) capacity. Mr. Ashok Kumar and Mrs. Revathi are the directors of the Company.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence and diverse revenue base**

ATMPL has an established presence in the textile industry spanning more than two decades and key promoter Mr. Ashok Kumar (Managing Director) has more than two decades of experience in the textile industry resulting in long relationships with suppliers and customers, driving repeat business. Further, ATMPL's diversified product base comprising cotton and various blends in the viscose yarn in the counts ranging from 30's to 60's, provides operational flexibility. Acuité believes that ATMPL will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

- **Improving operating performance**

ATMPL revenues have recorded an increasing trend since the last 2 years, it recorded a compounded annual growth rate of 40 percent as the operating income which stood at Rs. 120.85 Cr in FY2021 is estimated to increase to Rs.312.76 Cr FY 2023. The increase in the revenue is on account of addition of vortex machines and Air-jet spinning machines. Its operating margin was in the range of 9.10 percent to 9.64 percent over the past two fiscal years ended in FY2022 and it is estimated to be around 12 percent in FY2023. Acuité believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

- **Improved working capital management**

The company's working capital cycle is moderately intensive, however recorded an improvement, reflected by its GCA days at 113 days as on March 31, 2022 as against 203 days as on March 31, 2021. Inventory days stood at 43 days as on March 31, 2022 as against 98 days as on March 31, 2021. The debtor day stood at 19 days as on March 31, 2022 as against 35 days as on March 31, 2021. Subsequently, the payable period stood at 4 days as on March 31, 2022 as against 31 days as on March 31, 2021 respectively. The Gross current assets days of the Company are estimated to be around ~109 days as on March 31, 2023. Further, the average bank limit utilization in the last twelve months ended April, 23 remained at ~86 percent for fund based limits and 30 percent for non fund based limits.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile of the company has remained below average with weak capital structure and high gearing and moderate debt protection metrics. The net worth of the company stood at Rs.34.98 Cr and Rs.34.07 Cr as on March 31, 2022 and 2021 respectively. The gearing of the company stood at 4.21 times as on March 31, 2022 against 2.41 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 2.48 times and 1.06 times as on March 31, 2022 respectively as against 2.32 times and 1.36 times as on March 31, 2021 respectively. Tol/ TNW stood at 5.01 times as on March 31, 2022 as against 2.63 times as on March 31, 2021. The debt to EBITDA of the company stood at 6.68 times as on March 31, 2022 as against 5.05 times as on March 31, 2021.

- **Susceptibility to volatility in raw material prices and supplier concentration risk**

The prices of viscose staple fibre (VSF) are volatile owing to fluctuations in wood pulp prices. Any steep increase in raw material prices that cannot be fully passed on to customers will affect profitability. However, strong operational capability and healthy diversification in clientele mitigate this risk. The ATMPL sources majority of raw material from Grasim Industries Ltd and has limited bargaining power as Grasim has an established market position in the viscose fibre segment. Though there has been no instance of shortage in supply by Grasim, risks related to supplier concentration will prevail. ATMPL profitable margins are susceptible to fluctuations in the prices of Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Acuité believes that ATMPL'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 commoditize

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
- Any further deterioration in working capital management

Material covenants

None

Liquidity Position: Adequate

ATMPL's Liquidity is adequate with adequate NCAs to its repayment obligations. ATMPL generated cash accruals of Rs.14.00 Cr during FY2022, while it's maturing debt obligations Rs.12.65 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.24-31 Cr during FY2023-25 while their repayment obligations are estimated to be around Rs.15-20 Cr during the same period. The average fund-based working capital utilization stood at 83 percent for the past 12 months ended March, 2023. The Company has maintained unencumbered cash and bank balances Rs.1.36 Cr and the current ratio stood at 0.97 times as on March 31, 2022. Acuité expects that the liquidity of the company is likely to be adequate over the medium term on account of moderate cash accruals to its maturing debt obligations

Outlook: Stable

Acuité believes that ATMPL will maintain 'Stable' outlook over the medium term on account of a long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the Company registers higher-than-expected growth in its revenues and profitability or further improves its capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case ATMPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration in 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. | 200.26 | 120.85 |
| PAT | Rs. Cr. | 0.92 | 2.00 |
| PAT Margin | (%) | 0.46 | 1.66 |
| Total Debt/Tangible Net Worth | Times | 4.21 | 2.41 |
| PBDIT/Interest | Times | 2.48 | 2.32 |

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

ATMPL has not cooperated with India Ratings, which has classified the company as non cooperative through a release dated Feb 03, 2023. The reason provided by India Rating is non-furnishing of information for monitoring of ratings

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>

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

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|--|
| 27 Jun 2023 | Bills Discounting | Short Term | 3.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Covid Emergency Line | Long Term | 9.20 | ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable) |
| | Term Loan | Long Term | 7.00 | ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable) |
| | Cash Credit | Long Term | 40.00 | ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable) |
| | Covid Emergency Line | Long Term | 9.51 | ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable) |
| | Term Loan | Long Term | 2.64 | ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable) |
| | Term Loan | Long Term | 33.65 | ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable) |
| 12 Apr 2022 | Covid Emergency Line. | Long Term | 9.51 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 40.00 | ACUITE BBB- Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 0.30 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 33.63 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 7.66 | ACUITE BBB- Stable (Assigned) |
| | Bills Discounting | Short Term | 3.00 | ACUITE A3 (Assigned) |
| | Covid Emergency Line. | Long Term | 9.20 | ACUITE BBB- Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 1.70 | ACUITE BBB- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|-------------------------|------------------|----------------|----------------|------------------|-------------------|----------------------------------|
| Indian Bank | Not Applicable | Bills Discounting | Not Applicable | Not Applicable | Not Applicable | Simple | 3.00 | ACUITE A4+ Reaffirmed |
| Indian Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 40.00 | ACUITE BB+ Stable Reaffirmed |
| Indian Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 20.00 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 9.20 | ACUITE BB+ Stable Reaffirmed |
| Indian Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 9.51 | ACUITE BB+ Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 0.29 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 7.00 | ACUITE BB+ Stable Reaffirmed |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 2.64 | ACUITE BB+ Stable Reaffirmed |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 33.65 | ACUITE BB+ Stable Reaffirmed |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 1.94 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 14.51 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 3.52 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 1.83 | ACUITE BB+ Stable Assigned |
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|-------------|----------------|-----------|---------------|---------------|---------------|--------|-------|--------------------------------|
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 32.42 | BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 4.48 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 15.29 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 6.98 | ACUITE BB+ Stable Assigned |
| Indian Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 2.74 | ACUITE BB+ Stable Assigned |

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About Acuité Ratings & Research

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