

**Rating Rationale**

**Arthanari Loom Centre (Textile) Pvt Limited**

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.134.85 Crores of Arthanari Loom Centre (Textile) Pvt Ltd ('ALCTPL' or the 'Company')**

**Particulars**

Facilities**	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous (November 2019)	Present
<b>Fund Based</b>					
Cash Credit	50.00	50.00	Long Term	<b>BWR BBB/Stable</b>	<b>BWR BBB/Stable Reaffirmed</b>
Term Loan	54.93	66.82			
WCTL	-	10.00			
FITL	-	2.12			
COVID-19 loan	-	4.75			
PCFC	(8.50)	(8.50)	Short Term	<b>BWR A3</b>	<b>BWR A3 Reaffirmed</b>
FBDN/EBR	(1.00)	(1.00)			
<b>Non Fund Based</b>					
Bank Guarantee	(1.00)	(1.00)			
Letter of Credit	(13.39)	(13.39)			
Forward Contract	1.16	1.16			
<b>Total</b>	<b>108.89</b>	<b>134.85</b>	<b>Rupees One Hundred And Thirty Four Crores And Eighty Five Lakhs Only</b>		

\*\* Annexure I provides details of the credit facilities ; \*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings;

## Rating Action/Outlook

The reaffirmation of ratings factors the consistent operational and financial performance of the company, long operational track record and extensive experience of the promoters, diversified customer and supplier base & locational advantage, and moderate financial risk profile. However, the ratings remain constrained by susceptibility to profitability to volatility in raw material prices, intense competition in industry and regulatory requirements

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to Positive if the company reports better-than-estimated growth in its operations and profitability while maintaining its credit risk profile.

The outlook may be revised to Negative if significant decline in revenue, profitability margins, further elongation of working capital cycle or further slowdown of business operations due to COVID-19

## Key Rating drivers

### Credit Strengths:

- **Established operational track record and experienced promoters:** The promoters have over two decades of experience in manufacturing of fabrics. The Company is engaged in manufacturing of yarn dyed fabrics and indigo fabrics. It also has a captive windmill of 1.25 MW for internal consumption. The Company has installed capacity of 233 looms with production capacity of 285 lakh metres per annum of fabrics as on 31Mar2020. It has state of the art cotton yarn dyeing plant, denim dyeing plant, fabric weaving facilities with modern airjet looms and hi-tech fabric process house in its manufacturing unit. The established presence in the market over a long period and promoters' understanding of the industry dynamics are beneficial for the Company's business. Also, the promoters have the ability to contribute to the business through long term unsecured loans as and when needed.
- **Diversified customer and supplier base and locational advantage:** The Company has limited customer and supplier concentration risk as the sales and purchases are not concentrated enough with a few customers/suppliers so as to have an adverse affect on business due to business problems of any customers/suppliers. The manufacturing unit is located in Tamil Nadu which is one of the main cotton yarn producing states in India. The Company sources the cotton yarn from Tamil Nadu and Andhra Pradesh and dyes and chemicals from within Tamil Nadu.
- **Financial performance:** In FY20, operating income remained relatively flat at Rs.319.72Cr as against Rs.326.76Cr in FY19. Operating income is derived from sale of fabrics. Approximately 81% of total revenue is derived from domestic sales and the remaining is export of fabrics. Tangible Net Worth improved from Rs.82.15 crs as on March 31, 2019 to Rs.87.65Cr as on March 31, 2020 on account retention of profit. Gearing improved from 1.71 times in FY19 to 1.45 times in FY20. ISCR is moderate at 2.96 times in FY19 and 2.81 times in FY20 . DSCR is moderate at 1.44 times in FY19

and 1.28 times in FY20. Operating Profit margin declined marginally from 12.91% in FY19 to 11.69% in FY20 on account of increase in manufacturing overhead expenses. Net profit margin remained flat in FY20 at 1.72% as against 1.78% in FY19. Current ratio is moderate at 1.13 times as on March 31, 2020.

### **Credit Constraints:**

- **Susceptibility of profitability to volatility in raw material prices:** The profitability of textile fabrics business is directly correlated to variations in the prices of the yarn. The Company mainly uses cotton and rayon yarn. Cotton yarn's price varies with the price of cotton which is affected by agro-climatic conditions, Minimum Support Price (MSP) decided by the Central government and the demand from raw cotton export market. The rayon yarn is imported from Indonesia as and when needed, which makes it susceptible to the foreign exchange fluctuations. The Company's profitability is vulnerable to the volatility in raw material prices as raw material cost comprises roughly 50-55% of the annual net sales. Given the intense margin based competition of incumbents in the industry, the Company has limited pricing power to pass on the increase in input costs to the customers. So, any upside volatility of raw material prices can adversely affect the profitability of the Company.
- **Intense competition in industry:** The domestic fabric industry is highly fragmented, consisting of both organized and unorganized sectors. The organised players face tough competition from unorganised players on account of the wider variety of products offered by the latter. Due to the high competition, any variation in input cost hits the margins due to limited flexibility to pass on that cost to the customers. In this scenario, the Company needs to rely on an increase in scale of operations, augmentation of sales volume, diversification and moving up the value chain, long term contracts with buyers and suppliers and establishment of its brand in the market to win over its competition.
- **Regulatory requirements:** The process of fabric manufacturing consists of various processes such as bleaching, dyeing and printing which use chemicals at various stages, and the waste emanating out of them has to be disposed carefully to prevent harm to geological ecology. Adherence to statutory requirements and pollution control measures adds to the overall cost of operations. The Company has full-fledged Effluent Treatment Plant and has also recently enhanced capacity at a cost of Rs. 18.00 Crs. during FY18 which purifies wastewater from its process and recycles 99.5% of water used by it.

### **Analytical Approach**

BWR has adopted a standalone approach while arriving at the ratings and applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The Company has over 65% investment in three partnership firms: A.P. Textiles, Pushpam Textiles and Aadithya Textiles. The Company does not prepare consolidated financials

based upon legal opinion and its board's interpretation of Section 129(3) of the Companies Act, 2013

### **Rating Sensitivities**

#### **Positive:**

- Sustained improvement in scale of operations
- Prudent working capital management to improve liquidity profile and profitability metrics

#### **Negative :**

- Deterioration in scale of operations
- Specific credit metrics that could lead to a downgrade of ALCTPL rating include gearing above 2.00 times and ISCR and DSCR less than 1.00 times on a sustained basis

### **Liquidity - Adequate:**

Working capital utilisation is ~ 85% and the company has limited access to additional fund based facilities. Current ratio is moderate at 1.13 times as on March 31, 2020. Cash and Cash Equivalents were moderate at Rs.4.51Cr as on March 31 2020 . Debt repayment is in the range of around Rs.7.87Cr for FY21 BWR estimates the cash accruals of the company to be in the range of Rs.24Cr to Rs.25Cr in FY21 which would be sufficient to meet the debt obligations. BWR notes that the company had availed the moratorium benefits from its lender which is expected to provide short term liquidity support to the company. Post moratorium, the company has been regularly servicing its interest/principal obligations.

### **About the Company:**

Arthanari Loom Centre (Textile) Pvt Ltd was incorporated in 1991 at Salem, Tamil Nadu. The Company is engaged in manufacturing of yarn dyed fabrics and indigo fabrics. Its factory is located at Erumapalayam Post, Salem. Electronically cleared, spliced and autoconed cotton combed/compact yarn from 5s to 80s and 2/20s to 2/100s are the major raw materials used by the Company besides the rayon yarn and dyes and chemicals. The plant has cotton yarn dyeing plant, denim dyeing plant, fabric weaving facilities with modern airjet looms and hi-tech fabric process house. The plant has installed capacity of 233 looms with production capacity of 285 lakh metres per annum as on 31Mar2020. The Company has a captive wind mill with installed capacity of 1.25 MW for internal consumption purpose. Further, the company is planning to set up a 12 MW Solar Project. The generated solar power will be utilized for captive consumption. The cost of the project is estimated around Rs.46Crores. The first phase of the project is expected to be completed on or before 31 Mar 2021. The project is carried out in two phases 6MW each phase. Project cost for each phase is roughly Rs.23.00Cr. Out of Rs.46Cr, funding from HDFC Bank will be Rs.33Cr. For the first phase HDFC bank had already sanctioned Rs.16.50Cr for erection of 6MW. Overall the project is expected to provide power cost saving of Rs12Cr per annum (Rs1Cr per MW) .

The Company has investments in three partnership firms: M/s A. P. Textiles (65% share), M/s



Pushpam Textiles (65% share) and M/s Aadhithya Textiles (90% share). The Company is promoted by Mr. Arthanari Alagarasan and his family members. The Board of Directors consists of Mr. Arthanari Alagarasan (Managing Director), Mrs. A Pushpa (Dy. M.D.), Mr. A Aadhithya (Joint M. D.) and Mrs. D. Naga Aarthhi (Director).

## Financial Performance

### Key Financial Indicators:

Particulars		31 Mar 2018	31 Mar 2019	31 Mar 2020
		<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Total Operating Income	Rs. Cr	297.52	326.76	319.72
EBIDTA	Rs. Cr	40.49	42.19	37.37
Profit After Tax	Rs. Cr	9.21	5.83	5.49
Tangible Net Worth	Rs. Cr	76.32	82.15	87.65
Total Debt : Tangible Net Worth	Times	2.01	1.71	1.45
Current Ratio	Times	1.08	1.06	1.13

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

**Status of non-cooperation with previous CRA - NA**

**Rating History for the last three years [including withdrawal and suspended]**

Facilities**	Current Rating (December 2020)			Ratings History		
	Type	Amount (Rs. Cr)	Ratings	15 Nov 2019	08 Nov 2018	21 Aug 2017
<b>Fund Based</b>						
Cash Credit	Long Term	50.00	<b>BWR BBB/Stable Reaffirmed</b>	<b>BWR BBB/Stable</b>	<b>BWR BBB/Stable</b>	<b>BWR BBB/Stable</b>
Term Loan		66.82				
WCTL		10.00				
FITL		2.12				
COVID-19 loan		4.75				
PCFC	Short Term	(8.50)	<b>BWR A3 Reaffirmed</b>	<b>BWR A3</b>	<b>BWR A3</b>	<b>BWR A3</b>
FBDN/EBR		(1.00)				
<b>Non Fund Based</b>						
BG	Short Term	(1.00)	<b>BWR A3 Reaffirmed</b>	<b>BWR A3</b>	<b>BWR A3</b>	<b>BWR A3</b>
LC		(13.39)				
Forward Contract - CEL		1.16				
<b>Total</b>		<b>Rs.134.85</b>	<b>(Rupees Three Hundred Forty Two Crores And Fifty lakhs Only)</b>			

*Note: Initial rating of BWR BBB/Stable /A3 was assigned on 30 Aug2016;*

**Complexity Levels of the Instruments:**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Manufacturing Companies](#)
- [Approach to Financial Ratios](#)

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**Arthanari Loom Centre (Textile) Pvt Ltd - Annexure I  
Bank Loan Facilities**

SI No.	Name of the bank	Facility	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1	SBI Commercial Branch, Erode	Cash Credit	50.00	-	50.00
		TL	26.07	-	26.07
		FITL	2.12	-	2.12
		COVID-19 loan	4.75	-	4.75
		PCFC	-	(8.50)	(8.50)
		FBDN/EBR	-	(1.00)	(1.00)
		LC	-	(10.00)	(10.00)
		One Time Capex LC	-	(3.39)	(3.39)
		BG	-	(1.00)	(1.00)
		Forward contract	-	1.16	1.16
2	Syndicate Bank, Fairlands Branch, Salem	Term Loan	24.25	-	24.25
3	HDFC Bank, Fairlands Branch, Salem	Term Loan	16.50	-	16.50
		Working capital Term Loan	10.00	-	10.00
<b>Total : Rupees One Hundred And Thirty Four Crores And Eighty Five Lakhs Only</b>					134.85



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