

## Rating Rationale

15 Nov 2019

### Arthanari Loom Centre (Textile) Pvt Ltd

**Brickwork Ratings reaffirms/assigns ratings for the Bank Loan Facilities of Rs. 108.89 Crores of Arthanari Loom Centre (Textile) Pvt Ltd ('ALCTPL' or 'the Company')**

#### Particulars:

Facility**	Amount (Rs Cr)		Tenure	Rating	
	Previous	Present		Previous (November 2018)	Present
<b>Fund Based</b>					
Cash Credit	50.00	50.00	Long Term	BWR BBB/Stable	<b>BWR BBB/Stable Reaffirmed</b>
Term Loans	62.54	54.93			
Proposed Term Loan	6.00	2.80			
PCFC	(8.50)	(8.50)	Short Term	BWR A3	<b>BWR A3 Reaffirmed</b>
FBDN/EBR	(1.00)	(1.00)			
<b>Non-fund Based</b>					
Letter of Credit^	(10.00)	(13.39)			
Bank Guarantee	(1.00)	(1.00)			
Forward Contract-CEL	-	1.16		-	<b>BWR A3 Assigned</b>
<b>Total</b>	<b>118.54</b>	<b>108.89</b>	<b>Rupees One Hundred and Eight Crores and Eighty Nine Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank loan facilities are provided in Annexure-I

^ LC of Rs. 13.39 Crs. has two components: Rs. 10.00 Crs. as sub-limit of CC, Rs. 3.39 Crs one-time Capex LC as sub-limit of a TL of Rs. 8.00 Crs.

#### Rating Action/Outlook

The ratings reaffirmation reflects the operational track record of the Company, experience of the promoters, steady performance over the years and near term revenue visibility based upon current order book position. However, the ratings are constrained by the thin profitability, continuous debt-funded capital expenditure leading to high gearing, fragmented and intensely competitive market and working capital intensive operations.



The 'Stable' outlook indicates a low likelihood of rating change over the medium term. Brickwork Ratings believes that Arthanari Loom Centre (Textile) Pvt Ltd's ('ALCTPL' or 'the Company') business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations and higher than envisaged improvement in profitability results in an improved financial risk profile. The outlook may be revised to negative in case of inability to increase sales and profitability on a sustained basis, deterioration in the capital structure due to debt-financed capital expenditure and further stretch in cash conversion cycle, thus weakening the financial risk profile of the Company.

### 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 31Mar2019. 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. Rayon yarn has to be imported from Indonesia as per the requirements placed by the customers.
- **Financial performance:** There was 9.22% improvement in net sales in FY19 to Rs. 323.29 Crs. from Rs. 295.99 Crs. in FY18 primarily due to increase in export sales of fabrics from Rs. 30.38 Crs in FY18 to Rs. 53.61 Crs. in FY19. There was a marginal increase in EBITDA while PAT declined in FY19 due to increase in taxation outlay due to prior period taxes. Total debt declined in FY19 due to repayment of long term debt and decline in short term bill discounting. Incremental increase in TNW and decline in total debt led to improvement in both gearing (1.71 times) and financial leverage (1.98 times) as on 31Mar2019. Debt coverage metrics deteriorated marginally as ISCR declined from 3.15 times to 2.96 times and DSCR declined from 1.60 times to 1.44 times over the period. But they are still at adequate levels. Current Ratio has been at ~1.00 time over the years due to high working capital requirements and was 1.06 times as on 31Mar2019. The Company has reported revenue of ~Rs. 191 Crs. for 6MFY20 against ~Rs. 178 Crs. for 6MFY19.

### Credit Challenges:

- **Continuous need for replacement and upgradation of machinery:** Given the nature of operations involving natural wear and tear and technological obsolescence, the Company is required to replace and upgrade the machines and equipment in an ongoing basis for which long term debt would be needed. Currently the Company has six term loans with outstanding as on Rs. 54.93 Crs. pertaining to various capital expenditure projects taken either for replacement of old machinery or for expansion/diversification of capacity. The Company has proposed to take another term loan of Rs. 2.80 Crs. for purchase of new machineries at a total cost of Rs. 4.30 Crs.
- **Susceptibility of profitability to volatility in raw material prices:** The profitability of textile fabrics business is negatively 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. In the absence of any long term contracts with the raw material suppliers, 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. India's cotton yarn export between April-June this year was 33% lower compared to the same period last year which can depress the domestic price of cotton yarn, helping the Company on cost front.
- **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 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 installed 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 And Applicable Rating Criteria

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 Statutory Auditors have opined that the consolidated financial statements should be prepared taking into account the financials of the company and these partnership firms. However, 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:**

- Increase in scale of operations and profitability on a sustained basis
- Timely completion of ongoing projects without cost overrun
- Long term contracts with suppliers and customers

#### **Negative:**

- Deterioration in liquidity
- Deterioration in gearing and debt coverage metrics

#### **Liquidity Position: Adequate**

As on 31Mar2019, net cash accruals at Rs. 24.51 Crs. are adequate to cover the long term debt obligations (CPLTD) of Rs. 15.47 Crs. for FY20. Cash and cash equivalents are low at Rs. 0.47 Cr. as on 31Mar2019. EBITDA for FY19 was sufficient to cover the interest and finance charges of FY17-19. Working capital utilization was high at around 95% . Besides, the working capital limit is just ~15% of the net sales for FY19 and the Company has the flexibility to seek enhancement as and when needed. Current ratio is low at 1.06 times as on 31Mar2019. Overall, due to sufficient net cash accrual and EBITDA and flexibility of increasing the working capital funding based on requirements, the liquidity position appears adequate.

#### **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 31Mar2019. It also has around 80 looms of the group firms at its disposal to which it assigns the weaving, winding and warping works on job-work basis as and when needed. The Company has a captive wind mill with installed capacity of 1.25 MW for internal consumption purpose.

The Company has investments in three partnership firms: M/s A. P. Textiles (65% share), M/s Pushpam Textiles (65% share) and M/s Aadithya 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 Aadithya (Joint M. D.) and Mrs. D. Naga Aarthhi (Director).

### Key Financial Indicators

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Net Revenue	Rs. Cr.	295.99	323.29
EBITDA	Rs. Cr.	40.49	42.19
Profit After Tax	Rs. Cr.	9.21	5.83
Tangible Net Worth	Rs. Cr.	76.32	82.15
Total Debt : Tangible Net Worth	Times	2.01	1.71
Current Ratio	Times	1.08	1.06

On a provisional basis, the Company has reported revenue of ~Rs. 191 Crs. for 6MFY20.

**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

Facilities	Current Rating (November 2019)			Rating History			
	Tenure	Amount (Rs Cr)	Rating	08Nov2018	21Aug2017	30Aug2016	
<b>Fund Based</b>							
Proposed Term Loan	Long Term	2.80	<b>BWR BBB/Stable Reaffirmed</b>	BWR BBB/Stable Reaffirmed	-	-	
Cash Credit		50.00			BWR BBB/Stable Reaffirmed	BWR BBB/Stable Reaffirmed	BWR BBB/Stable Assigned
Term Loans		54.93			BWR BBB/Stable Reaffirmed	BWR BBB/Stable Reaffirmed	BWR BBB/Stable Assigned
PCFC	Short Term	(8.50)	<b>BWR A3 Reaffirmed</b>	BWR A3 Reaffirmed	BWR A3 Reaffirmed	BWR A3 Assigned	
FBDN/EBR		(1.00)					
<b>Non-fund Based</b>							
Letter of Credit		(13.39)					
Bank Guarantee		(1.00)				-	
Forward Contract-CEL		1.16	<b>BWR A3 Assigned</b>	-	-	-	

Total	108.89	Rupees One Hundred and Eight Crores and Eighty Nine Lakhs Only
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Note: Initially rated amount on 30Aug2016: Rs. 115.16 Crs., rated amount on 21Aug2017: Rs. 110.37 Crs., rated amount on 08Nov2018: Rs. 118.54 Crs.

### 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

<ul style="list-style-type: none"> <li><a href="#">General Criteria</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Manufacturing Companies</a></li> </ul>
<ul style="list-style-type: none"> <li><a href="#">Approach to Financial Ratios</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Short Term Debt</a></li> </ul>

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### Arthanari Loom Centre (Textile) Pvt Ltd

#### ANNEXURE I

#### Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Cr)	Short Term (Rs Cr)	Total (Rs Cr)
1	SBI, Commercial Branch, Erode	Cash Credit	50.00	-	50.00
2		Term Loans	28.16	-	28.16
3		Proposed Term Loan	2.80	-	2.80
4		PCFC	-	(8.50)	(8.50)
5		FBDN/EBR	-	(1.00)	(1.00)
6		Letter of Credit	-	(10.00)	(10.00)



7		One time Capex LC	-	(3.39)	(3.39)
8		Bank Guarantee	-	(1.00)	(1.00)
9		Forward Contract-CEL	-	1.16	1.16
10	Syndicate Bank, Fairlands Branch, Salem	Term Loan	26.77	-	26.77
<b>TOTAL - Rupees One Hundred and Eight Crores and Eighty Nine Lakhs Only</b>					<b>108.89</b>

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