Rating Rationale

16 June 2020

Avaneetha Textiles Private Limited.

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of Rs. 56.21 Crores of Avaneetha Textiles Private Limited. (hereafter referred to as 'ATPL' or 'the Company')

Particulars

Facility**	Amount (Rs. Crs)	Tenure	Rating*
Fund Based			
Term Loans	31.21	Long Term	**BWR BBB/Stable Assigned**
WCDL	25.00		
CC (Sub limit of WCDL)	(25.00)		
FCDL (Sub limit of WCDL)	(15.00)		
PCL/PCFC (Sub limit of WCDL)	(25.00)		
FDBP/FUBP/EBRD/EBUP (Sub limit of WCDL)	(25.00)		
Non Fund Based			
Letter of Credit (Sub limit of CC)	(25.00)	Short Term	**BWR A3+ Assigned**
Total	**56.21**	**Rupees Fifty Six Crores and Twenty One Lakhs Only**	

*Please refer to BWR website www.brickworkratings.com for definition of the ratings ;** Details of Bank facilities are provided in Annexure

Note: a) In addition to the above, the Company has a sanctioned limit of Rs. 166.52 Crs from HDFC Bank, South Indian Bank, Catholic Syrian Bank and DBS Bank through multiple banking arrangement., which is not rated at the request of the company.
b) The Company has a forward contract of Rs. 9.00 Crs from Federal Bank which has not been rated at the request of the Company.

Rating Action/Outlook

The ratings draw comfort from the experienced management, established track record in the textile industry, consistent performance and the moderate financial risk profile of the company. The rating also factors the operational and marketing support derived from the promoters' family company - KPR Mill Limited. These strengths are, however, partially offset by the moderate profitability on account of the susceptibility to volatility in cotton prices in an intensely competitive cotton yarn industry, geographical concentration of clients, exposure to foreign exchange fluctuations and high working capital requirements of the business. BWR believes that due to the COVID 19 disruptions, the Company will face demand side headwinds in the short term due to production disruption and fall in demand of discretionary goods. The textile industry is expected to be more vulnerable, given its sensitivity to consumer demand and sentiment, as well as the labour-intensive nature of manufacturing operations. The strength of the recovery will depend on the duration and extent of the pandemic. With expectations of a slow-paced and elongated recovery, the domestic spinning companies are expected to face severe pressure on the performance during FY21.

Brickwork Ratings (BWR) takes cognizance of the COVID-19 regulatory package and related guidelines issued by the Reserve Bank of India (RBI) to mitigate the burden of debt servicing due to disruptions on account of the COVID-19 pandemic and to ensure the continuity of viable businesses. BWR also takes note of the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated 30 March 2020 in this regard. BWR notes that the company has applied for relief under the aforementioned package and has deferred its scheduled payments to the lending institutions in the interim.The Company did not opt for Moratorium 1.0 (March-May 2020). However , the Company has opted for Moratorium 2.0 (June to August 2020), but is yet to submit the approvals from its lenders because of procedural reasons. BWR would not be considering any non-payments as default for the time being. In case the lenders do not approve of the moratorium or do not provide a formal approval on rescheduling the loans in due course, BWR would review the approach towards default recognition. BWR is engaging in discussions with the management for the requisite information and will review the rating post the availability of necessary details. BWR will continue to monitor the developments in case of a prolonged lockdown and analyse the impact, if any, on ATPL's credit profile.

BWR expects that **Avaneetha Textiles Pvt. Ltd's** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the Company reports better-than-expected growth in its operations and profitability while maintaining its credit risk profile. The outlook may be revised to Negative if any prolonged lockdown impacts the company's earnings profile, operating metrics weaken resulting in a weaker liquidity position or if any larger-than-anticipated debt-funded capex leads to deterioration in the financial risk profile of the company. Any sharp reversal in industry conditions post COVID-19 may exert a downward pressure on the rating

Key Rating Drivers

Credit Strengths:

Established track record and experienced management:

The promoters have extensive experience of 15 years in the Textile Industry. BWR believes that the company benefits from the promoters' understanding of the dynamics of the business and established relationships with customers and suppliers. Additionally the Company derives operational , procurement and marketing support from the family concern - KPR Mill Limited, an established player in the textile industry, which aids in sourcing material at lower costs, increasing its market presence and deepening customer relationships.

Moderate financial risk profile:

Revenue has shown consistent improvement over the last three years. The Company reported a revenue of Rs. 414.32 Crs in FY19 as against Rs. 399.53 Crs in FY18 and Rs. 306.53 Crs in FY17. Gearing continues to be high at 3.76 times as on Mar 31 2019, showing marginal improvement from PY 4.00 times due to decrease in the debt level and increase in Tangible Net worth. However, the company has interest free unsecured loans to the extent of Rs. 41.78 crs from directors Considering this, the Adjusted gearing was 2.14 times as of Mar 31, 2019 Debt metrics have remained adequate in FY19 with DSCR at 1.20 times (FY18 - 1.50 times) and ISCR at 1.82 times(FY18 - 2.05 times). During FY20, on a provisional basis, the company achieved revenue of Rs. 408 Crs.

Credit Challenges:

Susceptibility of profitability to volatile cotton and cotton yarn prices and forex fluctuations :
The profitability of ATPL remains exposed to volatility in cotton prices. Cotton prices are affected by agro-climatic conditions, Minimum Support Price (MSP) decided by the Central government and the demand from the raw cotton export market. In the absence of any long term contract with the raw cotton sellers, the Company's operating cost is vulnerable to the volatility in raw cotton prices as raw material cost consists of approximately ~80%. Given the commoditized nature of cotton yarn and intense margin based competition of incumbents in the industry, the Company has limited pricing power to pass on the increase in such input costs to the customers. So, any upside volatility of raw cotton prices can adversely affect the profitability of the Company**.** During FY19, ATPL derived ~20% of its revenues from exports and imports ~80% of raw materials, thereby exposing its turnover and profitability to demand trends in the key export and import markets as well as fluctuations in foreign exchange rates. BWR notes that the company adequately hedges its forex exposure through packing credit facilities availed in foreign currencies and forward contracts

Intense competition in the textile industry:
The Indian spinning industry is highly fragmented, consisting of integrated and commodity players across both organized and unorganized sectors. Thus ATPL operates in a highly competitive and commoditized business environment, characterised by minimal product differentiation and fragmented nature, which restricts pricing flexibility. BWR believes that the long track record of the company in the line of business and established presence along with operational support from KPR Mills Limited, limits the competition to some extent.

High geographical concentration risk:
The Company's major domestic customers and markets are located at Tirupur, Tamil Nadu. Additionally, the Company derives ~50% of its revenue from Bangladesh in exports. Top five customers contributed ~20% of revenue during FY20. The high geographical concentration exposes ATPL to revenue risks in the event of order slowdown from the customers and decline in average realizations from these customers.

Working capital intensive operations:
Due to seasonal availability of raw cotton, the Company needs to purchase and store it during the harvest season. During FY19, the Company's cash conversion cycle has deteriorated to 115 days (PY: 87 days) due to increase in days receivable to 69 days (PY: 51 days), inventory holding days to 59 Days (PY: 44 days) and whereas payable days were 13 days (PY: 8 Days).

Impact of COVID 19:
Covid-19 pandemic has led to business slowdown during Q1FY21 and the challenge for the textile industry will continue even after situation stabilises. As the fallout from the Covid-19 pandemic worsens, the sectors most vulnerable to consumer sentiment and discretionary spending like textiles are likely to be severely impacted. As the demand for the downstream products are at a near standstill amid lockdown across nations, India's cotton yarn exports are expected to fall by ~18-20%.Yarn being an intermediate product, is likely to face a ripple effect of the contraction in demand in the downstream segments. While the spinners continue to incur carrying costs for the inventory stocked, cash inflows are expected to start with a lag after the lockdowns are lifted, which are expected to keep their liquidity profiles stretched, particularly for companies with sizeable stocks. Also, the yarn prices register a higher reduction than the cotton prices (adjusted for the inventory held) during the year. ATPL is exposed to the aforesaid risks. During FY20, the company has achieved 96% of its estimated target and has not incurred any revenue loss in the Q4FY20. However it expects

a 10-15% decline in sales from June till August 2020 on account of the COVID19 lockdown. On a provisional basis, the Company has achieved a total sales of Rs. 34.00 crs in FY21 till date. The company is confident that once the situation stabilises, recovery will be easier and smoother considering the company's long standing relationship with its domestic customers.

Analytical Approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The Company's ability to achieve its targeted performance despite the Covid impact, improve profitability, effectively manage volatility in raw material prices, strengthen its credit profile, diversify the customer base and efficiently manage its working capital will be the key rating sensitivities.

Positive:

- Increase in scale of operations and profitability on a sustained basis.
- Efficient working capital management and strengthening of liquidity position

Negative

- Significant decline in turnover and profitability as a fallout of COVID-19.
- Deterioration in liquidity and debt coverage ratios and further deterioration of gearing**.**

Liquidity Position: Adequate

ATPL's average utilization of working capital is ~85% over the last 12 months. Current ratio was 1.15 times and Net cash accruals to total debt was 0.10 times as on 31 Mar 2019. ATPL has opted to avail moratorium benefits under the COVID-19 Relief Package announced by RBI for the period June to August (Moratorium 2.0). Post moratorium, 3-months' TL interest and EMI of ~Rs. 5 Cr are to be paid in October 2020, as per the scheme. Current liquidity position is adequate to cover this with the liquid assets, including cash & liquid investments and undrawn credit limits, of ~Rs. 30 Cr as on May 31, 2020 (Provisional). Projected cash accruals for FY21 & FY22 are sufficient to meet the TL repayment obligation of Rs. 12 Cr and Rs. 11 Cr each for the respective years.

About the Company

Avaneetha Textiles Pvt. Ltd. (ATPL) was incorporated in 2014 at Tirupur, Tamil Nadu. ATPL is engaged in production of 20's, 25's, 30's, 34's and 40's cotton yarn, compact yarn and slub yarn.The Company's manufacturing unit is located at Kaniyur village, Coimbatore. The factory consists of two units with 60000 Spindles (Unit I - 36000 Spindles and Unit II - 24000 Spindles).The Company also has windmill units of 5.60 MW located at Theni/Tirupur/Tirunelveli, for captive use. The Company has markets all over India and exports majorly to Bangladesh, Portugal and Hong Kong. Other export locations are China, Vietnam, Peru, South Korea, Sri lanka, Pakistan, Malaysia and Egypt.

Smt. Uma Sekar is the Managing Director and Smt. Kalpana Anand and Sri. P. Senthilkumar are the other directors.

Financial performance

Key Parameters	Units	2018	2019
Result Type		**Audited**	**Audited**
Operating Revenue	Rs. Cr	408.29	419.93
EBITDA	Rs. Cr	28.00	42.88
PAT	Rs. Cr	6.34	8.57
Tangible Net Worth	Rs. Cr	52.51	61.08
Total Debt/Tangible Net Worth	Times	4.00	3.76
Current Ratio	Times	1.06	1.15

On a provisional basis, the Company has reported revenue of around Rs. 408 Crs for FY20.

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] :

Facility	Current Rating (June 2020)			Rating History		
	Type	Amount (Rs. Crs)	Rating	2019	2018	2017
Fund Based						
Term Loans	Long Term	31.21	**BWR BBB/ Stable Assigned**	Nil	Nil	Nil
WCDL		25.00				
CC (Sub Limit of WCDL)		(25.00)				
FCDL (Sub Limit of WCDL)		(15.00)				
PCL/PCFC (Sub Limit of WCDL)		(25.00)				
FDBP/FUBP/EBRD/EBUP (Sub Limit of WCDL)		(25.00)				
Non Fund Based						
Letter of Credit (Sub Limit of CC)	Short Term	(25.00)	**BWR A3+ Assigned**			
Total		**56.21**	**Rupees Fifty Six Crores and Twenty One Lakhs Only**			

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

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Avaneetha Textiles Private Limited
Annexure I
Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	**Federal Bank**	Term Loans	31.21	-	31.21
		WCDL	25.00	-	25.00
		CC (Sub Limit of WCDL)	(25.00)	-	(25.00)
		FCDL (Sub Limit of WCDL)	(15.00)	-	(15.00)
		PCL/PCFC (Sub Limit of WCDL)	(25.00)	-	(25.00)
		FDBP/FUBP/EBRD/EBUP (Sub Limit of WCDL)	(25.00)	-	(25.00)
		Letter of Credit (sublimit of CC)	-	(25.00)	(25.00)
TOTAL - Rs. Fifty Six Crores and Twenty One Lakhs Only					**56.21**

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