January 05, 2021

Acsen Tex Private Limited: [ICRA]BBB-(Stable)/ [ICRA]A3 reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based -Cash credit	40.0	50.0	[ICRA]BBB- (Stable); Reaffirmed
Short-term interchangeable	(10.0)	(75.0)	[ICRA]A3; Reaffirmed
Long-term fund-based term loan	19.30	18.55	[ICRA]BBB- (Stable); Reaffirmed
Long-term unallocated Limit	0.70	0.45	[ICRA]BBB- (Stable); Reaffirmed
Total	**60.00**	**69.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of AcsenTex Private limited (ATPL) and Rasi G Energy Private Limited (RGEPL), as both the companies have a common promoter holding and has operational/financial support extended by RGEPL towards ATPL. Both the companies together are referred to as the Group.

The ratings reaffirmation factors in the vast track record of ATPL's promoters in the textile segment and its long-standing relationship with the customers, which ensures repeat orders. The ratings also consider the healthy growth in Group's operating revenue, which grew by 19% to Rs. 174.7 crore in FY2020 from Rs. 147.0 crore in FY2019. ICRA also notes the company's diversification into the rayon segment from FY2019 onwards, which mitigates the raw material price fluctuation risk to some extent.

The ratings, however, are constrained by ATPL's moderate scale of operations in the highly competitive textile spinning industry, thus limiting benefits arising from economies of scale. The company's profitability is vulnerable to fluctuations in cotton and cotton yarn prices. Despite its diversification into the rayon yarn segment minimising the price fluctuation risk to an extent, the company is still exposed to inventory risks inherent in the cotton spinning industry as almost 50% of its revenue is derived from the sale of cotton yarns. However, at the Group level, the operating margins are supported by power generation from wind farms of RGEPL, which is primarily used for ATPL's operation. The ratings are constrained by the weakening of the coverage indicators such as interest coverage and DSCR in FY2020 because of the high repayment of debt availed towards capital expenditure in FY2019. Moreover, the adverse impact of the pandemic on the company's performance in the current year is expected to have a bearing on its working capital intensity and cash accruals.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from its established relationship with its clientele and the extensive experience of promoters in the textile industry.

Key rating drivers and their description

Credit strengths

Experienced promoters – The promoters have more than two decades of experience in the textile industry. They have well-established presence in the seeds industry as well and have been supporting the financial requirement by infusing funds into ATPL.

Long-standing relationship with customers with diverse customer base – Further, the company's long-standing relationship with customers and presence in Tirupur-based hosiery market supports in sustaining its volumes and get repeat orders. Further, ATPL has a diversified customer base with 39% of the revenue derived from the top ten customers in FY2020. The counterparty credit risk is mitigated reasonably by its diversified customer base.

Increasing revenue – The Group's operating income (OI) grew for the third consecutive year in FY2020 by 19% to Rs. 174.7 crore, supported by higher volumes, which grew by a healthy 21.8% in FY2020. The current spindle capacity is at 37,536, increased from 35,328 spindles in FY2018. Moreover, the company's capacity utilisation has remained healthy at ~80% for FY2019 and FY2020. Going forward, the Group's OI is expected to decline in FY2021 on account of the prolonged lockdown implemented by the Government in the wake of the pandemic. However, the same is likely to revive and increase from FY2022.

Diversification into rayon yarn segment – The company has diversified into rayon yarn manufacturing, with a mix of close to 50% from FY2019. The diversification is expected to stabilise its profitability as prices in the rayon segment is expected to be relatively stable, thereby mitigating the price fluctuation risk to an extent.

Procurement of power by ATPL under group captive scheme – RGEPL has an installed wind energy capacity of 12.25 MW and ~90% of power generated by RGEPL is sold to ATPL and the remaining to SP Apparels Limited at the unit rate of ~Rs. 5.7 per unit.

Credit challenges

Profitability vulnerable to price fluctuation risk and inventory stocking – ATPL, with moderate scale of operation, operates in a highly competitive and fragmented spinning industry, which restricts its pricing flexibility. The limited bargaining power with customers on account of commoditised nature of the product exposes its earnings to fluctuations in raw material and yarn prices. Going forward, however, the company is expected to benefit from the increasing cotton yarn prices and the soft cotton fibre prices in the near future. While the risk of price fluctuation in cotton and cotton yarn will continue, the same is likely to be partly mitigated by increasing revenues from the rayon segment. However, the company is still exposed to inventory risk that is inherent in the cotton spinning industry.

Working capital metrics expected to remain stretched in FY2021 – ATPL's working capital intensity improved to 34.1% in FY2020 against 44.9% in FY2019. The debtor days remained stretched at 90 days in FY2020, while the inventory days improved substantially to 56 days in the concerned year. This can be attributed to the company's increased focus on rayon yarn segment since FY2019. Since the raw material for rayon yarn is non-seasonal and is available readily with much less price fluctuations, it avoids huge stocking as it does in case of cotton fibres, hence reducing the overall inventory days to an extent. With ATPL's OI expected to decline in FY2021 on account of the pandemic-led lockdown (very minimal sales happening in Q1 FY2021), the working capital intensity is likely to deteriorate. Moreover, the working capital debt is anticipated to remain similar to FY2020 levels despite the lower operating income expected in FY2021. Nonetheless, these are likely to be a onetime event.

Weakening of coverage metrics – ATPL's standalone gearing (adjusted after considering promoters loan as a part of the equity) improved to 1.1 times in FY2020 from 1.5 times in FY2019, primarily due to the decrease in working capital borrowing to Rs. 31.2 crore as on March 31, 2020 from Rs. 45.5 crore as on March 31, 2019 and the repayment of the term loan availed for capital expenditure executed in FY2019. However, the interest coverage and DSCR declined to 2.2 and 2.3 times, respectively, in FY2020 from 3.3 and 3.6 times in FY2019 due to higher interest cost and term loan repayments. If it avails an additional term loan for capex in FY2021 (for 2.3 MW solar power installation), the capitalisation ratios will get affected and deteriorate. Further, the interest cost and repayment on/of the loan will also have a bearing on its interest coverage and DSCR.

Liquidity position: Adequate

The company's liquidity position is expected to be **adequate**. Even considering the working capital debt to remain similar level to FY2020 (despite lower revenue), sufficient drawing power indicated by healthy current ratio will provide cushion in the form of undrawn line of credit. Moreover, its working capital limits are expected to be comfortable to support any adverse increase in the working capital intensity. Its repayment obligations towards the existing term loans and the term loan to be availed for capex are likely to be satiated through the Group's sufficient cash accruals.

Rating sensitivities

Positive triggers – ICRA could upgrade ATPL's ratings if its revenue and profitability improves on a consistent basis. Moreover, interest cover of more than 3.0 times on a sustained basis or a shift in the industry outlook positively impacting its operations may trigger a rating upgrade.

Negative triggers – Negative pressure on ATPL's ratings could arise if, for reasons including shift in industry conditions, or rise in capex or investments. A weakening of company's liquidity profile on account of stretched working capital cycle or withdrawal of promoter's unsecured loans will also put pressure on the rating. Specific credit metric for a downgrade is DSCR lesser than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textile Industry - Spinning
Parent/Group Support	NA
Consolidation/Standalone	ICRA has taken consolidated view of ATPL and RGEPL considering the common promoter holding and operational/financial linkages, as RGEPL supplies a major portion of power requirement for ATPL.

About the company

ATPL, a small-scale spinning unit in Tamil Nadu, commenced commercial production in 1998 with 10,080 spindles. The capacity has been augmented over the years to the current levels of 37,536 spindles. The company's product profile is concentrated on the coarser counts ranging from the 20s to the 40s and most of its produce is supplied to the hosiery markets of Tirupur in Tamil Nadu.

Group company - Rasi G Energy Private Limited

RGEPL is involved in the business of generation, transmission and distribution of wind power and has an installed capacity of 12.25MW. RGEPL's entire power output is sold to AcsenTex Private Limited (more than 90%) and to SP Apparels Limited at the unit rate of Rs. 5.7.

Key financial indicators –Standalone(ATPL)

	FY2019	FY2020
Operating Income (Rs. crore)	145.5	173.0
PAT (Rs. crore)	3.7	0.2
OPBDIT/OI (%)	6.2%	4.9%
PAT/OI (%)	2.5%	0.1%
TOL/TNW(times)	2.7	2.5
Total Debt / OPBDITA (times)	8.6	8.0
Interest Coverage (times)	2.9	1.9

Source : ATPL - Audited

Key financial indicators – Consolidated

	FY2019	FY2020
Operating Income (Rs. crore)	147.0	174.7
PAT (Rs. crore)	3.5	0.0
OPBDIT/OI (%)	7.0%	5.5%
PAT/OI (%)	2.4%	0.0%
TOL/TNW(times)	1.9	1.7
Total Debt / OPBDITA (times)	7.5	7.0
Interest Coverage (times)	3.3	2.2

Source: The Group - Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating history for last three years

	Instrument	Current Rating			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)	FY2021	FY2020	FY2019		FY2018
					05-Jan-21	22-Oct-19	01-Nov-18	28-Sep-18	-
1	Fund-based – CC	Long Term	50.00	31.18	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Interchangeable	Short term	(75.00)		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-
3	Fund-based – Term loan	Long term	18.55	20.54	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
4	Unallocated limits	Long term	0.45		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-

Note: Amount in Rs. crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	50.00	[ICRA]BBB- (Stable)
NA	Interchangeable	-	-	-	(75.00)	[ICRA]A3
NA	Term loan	September 2019	8.8%	September 2025	18.55	[ICRA]BBB- (Stable)
NA	Unallocated	-	-	-	0.45	[ICRA]BBB- (Stable)

Source: The Group

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rasi G Energy Private Limited	22.67%	Full Consolidation

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About ICRA Limited:

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