

January 08, 2021

Amaravathi Textiles Private Limited: Ratings downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	87.08	113.99	[ICRA]D; Revised from [ICRA]BBB- (Negative)
Fund-based - Working Capital Facilities	93.1	97.26	[ICRA]D; Revised from [ICRA]BBB- (Negative)
Non-fund Based Limits	9.00	9.05	[ICRA]D; Revised from [ICRA]A3
Unallocated Limits	62.18	31.06	[ICRA]D/[ICRA]D; Revised [ICRA]BBB- (Negative)/[ICRA]A3
Total	251.36	251.36	

*Instrument details are provided in Annexure-1

Rationale

The ratings revision considers the delays in debt servicing (principal and interest payments) by Amaravathi Textiles Private Limited (ATPL) in Q3 FY2021 owing to its poor liquidity position. The company's revenues and margins were impacted by lockdown imposed to contain the spread of the Covid-19 pandemic and low demand in H1 FY2021, affecting its cash flows and liquidity position. The company opted for moratorium on all its debt obligations for the months March – August 2020 and applied for restructuring in September 2020. However, the company withdrew its request to restructure the loans in December 2020 and delayed repayments of a few term loans post withdrawal of the request.

The company's revenues and margins would be impacted in FY2021, despite the improving realisations since October 2020, because of lower sales in H1 FY2021. Moreover, high inventory stocking practice and delay in the release of interest and power subsidies (~Rs. 47.9 crore as on March 31, 2020) resulted in high working capital intensity of 48.0-51.0% over the years. ATPL's working capital cycle is further impacted because of significant delays in receivables from the state discom for its solar power plant, which resulted in a poor liquidity position. The ratings also factor in the susceptibility of margins to cotton and yarn price fluctuations, and the highly fragmented industry structure, restricting pricing flexibility and bargaining power to an extent.

The ratings, however, consider ATPL's healthy scale of operations with an installed capacity of 139,728 spindles and 6,096 rotors and its established track record in the spinning industry, leading to a healthy customer base, aiding in repeat orders. Besides, its long relationships with customers and suppliers, and presence in finer counts of yarn with value-added capabilities (compact, gassed and mercerised yarn) supported ATPL's volumes and earnings over the years.

Key rating drivers and their description

Credit strengths

Long track record of the company – The company has a healthy scale of operations with an installed capacity of 139, 728 spindles and 6,096 rotors and an established presence in the knitting and woven yarn markets of South India, having catered to the medium and finer count requirements for more than three decades. ATPL's long presence has also aided in establishing strong business links with its key suppliers and customers, lending some pricing flexibility and cost savings.

Diversified product range with presence in value-added segments – ATPL’s product portfolio has been spread across medium and finer counts, with the better value addition (compact, gassed and mercerised yarn) supporting the operating margins in the business. ATPL has presence across count ranges from 20s to 120s, which lends some stability to volumes and earnings as various count ranges find applications in different consumer segments, buffering the impact of slowdown in any one segment.

Credit challenges

Delays in debt servicing – The company delayed repayment of a few term loans in Q3 FY2021. The company’s revenues and margins were impacted by lockdown imposed to contain the spread of the Covid-19 pandemic and low demand in H1 FY2021, affecting its cash flows and liquidity position. The company opted for moratorium on all its debt obligations for the months March – August 2020 and applied for restructuring in September 2020. However, the company withdrew its request to restructure the loans in December 2020 and delayed repayments of a few term loans post withdrawal of the request because of its poor liquidity position.

Revenues and margins to be impacted in FY2021 – The company’s revenues and margins would be impacted in FY2021 because of lower sales in H1 FY2021. However, ICRA notes that realisations and margins have been improving since October 2020, supporting the overall margins for FY2021 to an extent. Nevertheless, the company’s coverage indicators would be impacted with estimated DSCR of less than 1.0 times

High working capital intensity – The company inventory holding is high, which coupled with a delay in the release of interest and power subsidies (~Rs. 47.9 crore as on March 31, 2020) resulted in high working capital requirements at 48.0-51.0% of the operating income over the years. Moreover, the company had witnessed delays in payments from its customers, impacting its cash flows and liquidity position.

Intense competition in the industry – The spinning industry is highly fragmented and competitive amid the presence of a number of organised and unorganised players. Intense competition in the industry and commoditised nature of the product limit ATPL’s pricing flexibility and bargaining power.

Profitability exposed to fluctuation in cotton and yarn prices – The company’s profit margins are exposed to the fluctuation in cotton and yarn prices, which depend on factors like seasonality, monsoon condition, international demand and supply situation, export policy etc. Further, it is exposed to the regulatory risks as prices are decided through the minimum support price set by the Government. Moreover, the company stocks cotton during the peak season (November to March), which exposes it to the inventory holding risk. Further, the risk is accentuated by the relatively high inventory holding of ATPL compared to the average industry levels mandated by its product range and presence in higher counts.

Liquidity position: Poor

The company’s liquidity is poor with the high repayment obligations of Rs. 12.0-15.0 crore and minimum buffer in working capital limits (as working capital limits are fully utilised) owing to high working capital intensity of more than 50.0%. The company missed on few of the payments post withdrawal of the request for restructuring of loans owing to its poor liquidity position.

Rating sensitivities

Positive triggers – ICRA could upgrade ATPL’s ratings if the company demonstrates timely debt servicing on a sustained basis and improves its liquidity position.

Negative triggers – Not Applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry– Spinning
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Incorporated in 1983 and located in Prakasam district of Andhra Pradesh, ATPL manufactures yarn with installed capacities of 139,728 spindles, 6,096 rotors and 104 gins. ATPL produces cotton yarn in both hank and cone forms in the finer counts ranging from 60s to 120s for knitting as well as weaving segments largely in the combed variety including value-added compact, gassed and mercerised yarns. The company also produces open-ended coarse count yarn in counts ranging from 16s to 28s. The company initially started with 12,576 spindles in 1985 and gradually expanded to the current capacities. ATPL is promoted by Mr. K. Srinivasa Rao and his family members.

Key financial indicators

	FY2019	FY2020
Operating Income (Rs. crore)	357.8	279.4
PAT (Rs. crore)	15.7	-1.2
OPBDIT/OI (%)	15.6%	12.4%
PAT/OI (%)	9.3%	-0.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.5
Total Debt/OPBDIT (times)	3.9	5.8
Interest Coverage (times)	2.6	1.5

Source: Amaravathi Textiles Private Limited

Status of non-cooperation with previous CRA: CRISIL, in its rationale published on Amaravathi Textiles Private Limited dated April 24, 2019, has withdrawn the ratings, which were placed on Issuer Not Cooperating category at CRISIL/BB+/Stable/A4+ based on the best available information.

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2021)				Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					08-Jan-21	06-Oct-2020	19-August 2020			
1	Term Loans	Long Term	113.99	113.99	[ICRA]D	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	Long Term	97.26	-	[ICRA]D	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-fund based Limits	Short Term	9.05	-	[ICRA]D	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Unallocated	Long Term/Short Term	31.06	-	[ICRA]D/[ICRA]D	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB (Negative)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+

Source: Amaravathi Textiles Private Limited; 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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March-2013	NA	August 2028	113.99	[ICRA]D
NA	Cash Credit	NA	NA	NA	97.26	[ICRA]D
NA	Non-Fund Based Limits	NA	NA	NA	9.05	[ICRA]D
NA	Unallocated	NA	NA	NA	31.06	[ICRA]D/[ICRA]D

Source: Amaravathi Textiles Private Limited

Annexure-2: Not Applicable

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