

Amaravathi Textiles Private Limited

January 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	150.50	135.70	[ICRA]BBB (Stable); Reaffirmed
Working-capital Fund-based Limits	84.50	89.50	[ICRA]BBB (Stable); Reaffirmed
Non Fund-based Limits	11.66	9.16	[ICRA]A3+; Reaffirmed
Unallocated Limits	4.70	17.00	[ICRA]BBB (Stable)/[ICRA]A3+; Reaffirmed
Total	251.36	251.36	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA BBB) to the Rs. 225.20-crore (revised from Rs. 235.00 crore)¹ fund-based bank facilities and short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) outstanding on the Rs. 9.16 crore (revised from Rs. 11.66 crore) non-fund based bank facilities of Amaravathi Textiles Private Limited (ATPL)². ICRA has also reaffirmed the long-term/short-term rating of [ICRA]BBB/[ICRA]A3+ on the Rs. 17.00 crore (revised from Rs. 4.70 crore) unallocated limits of ATPL. The outlook on the long-term rating continues to be 'Stable'.

Rationale

The reaffirmation of ratings factors in ATPL's consistent performance during FY2017 and H1FY2018, with steady growth in yarn volumes and earnings on the back of its established presence in the domestic market and wide product range with value added capabilities. While the elevated cotton prices have dented margins to an extent during the recent past (operating margins moderating to 16.5% in FY2017 and 16.03% during H1 FY2018), earnings have been supported by higher yields, improved scale of economics with growth in volumes and steady generation from the solar power unit. Margins have also been aided by the inventory holding policy of ATPL, with the high stocking resulting in some inventory gains during the recent rise in prices. While the company has benefited from its large inventory holding in the past, the same also exposes earnings to any sharp downtrend in cotton prices especially given the limited pricing flexibility in the business owing to the intense competition. The ratings continue to factor in the moderate capital structure and coverage metrics of ATPL, constrained by the debt funded capital expenditure incurred during recent fiscals. ATPL's liquidity position is also strained by the inherent high working capital intensity in the business, owing to the cotton stock levels and high fiscal incentives receivable, apart from the firm repayment obligations. While the repayment obligations are firm at ~Rs 25 crore annually in the ensuing fiscals, stable margins and cash accruals expected during the coming quarters supported on the back of some traction in yarn demand and softening of cotton prices are likely to support ATPL's debt servicing coverage levels and would be key rating sensitivities. Further with no major expenditure envisaged, steady earnings and drop in debt levels on the back of repayments are expected to improve the capitalization ratios of ATPL - with Total Debt / OPBDITA and interest coverage likely to improve to 1.15 times and 3.3 times respective by FY2019.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes ATPL will continue to benefit from its established presence in the domestic yarn segment, aided by its broad value added product range and improving operational efficiency. The outlook may be revised to 'Positive' if sustained growth in revenues and earnings and favourable contraction in working capital cycle results in improvement in liquidity position and coverage metrics of the company. The outlook may be revised to 'Negative' upon deterioration in the liquidity position and credit profile of the company, owing to any drop in earnings from operations or increase in working capital intensity increases or debt funded capital expenditure incurred by the company is more than estimated.

Key rating drivers

Credit strengths

Established presence with extensive experience of the promoters – The Company enjoys an established presence in the southern India, having catered to the medium and finer count requirements of the market for more than three decades. ATPL's long standing presence has also aided in establishing strong business links with its key suppliers and customers, lending some pricing flexibility and cost savings. Further, the company's customer and supplier base is diversified, with top five customers accounting for less than 25% of the revenues during FY2017 lending some stability to earnings

Diversified product range with presence in value added segments and improving operational efficiency lends stability to earnings – ATPL's product portfolio has traditionally been spread across medium and finer counts, with value addition supporting the high operating margins in the business. Further, during recent fiscals the company has expanded its presence in the OE segment, which utilizes the waste from the ring spun operations, further improving the overall value addition. ATPL has presence across count ranges from 20s to 120s, which lends some stability to volumes and earnings as the various count ranges find applications in different consumer segments, buffering the impact of any slowdown in one segment. In addition, the expected pickup in yarn demand and softening of cotton prices during the coming quarters is expected to aid margin expansion over the medium term.

Credit challenges

Earnings exposed to fluctuation in cotton prices amid challenging demand scenario and intense competition – Earnings of ATPL remain exposed to the volatility in cotton prices as witnessed in the recent years, which have constrained contribution levels in the recent past, as the company has limited pricing flexibility due to intense competition and lower than expected demand during the recent quarters. In addition, the requirement of stocking cotton during the harvest season results in working-capital intensive operations and exposes profitability to fluctuation in cotton and yarn prices. Risk is accentuated by the high inventory holding of ATPL when compared to average industry median levels, especially with the expected downward bias in cotton prices with the pickup in delivery in the coming weeks (though the company has benefited from its large inventory holding in the recent quarters when the cotton prices had risen).

Coverage metrics and liquidity position constrained by the higher working capital intensity and recent debt funded expenditure undertaken – ATPL's working capital intensity of operations has remained high in the range of 45-50% of its operating income, over the years, on account of its high inventory position along with delays in realising subsidies from the state and central governments under the various investment promotion policies availed by the company. Increasing working capital requirements along with high debt repayment obligations owing to debt funded capital expansion undertaken by the company in the recent years has constrained the coverage metrics of the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Textile Industry](#)

About the company:

Incorporated in 1983 and located at Martur in Prakasam district of Andhra Pradesh (AP), Amaravathi Textiles Private Limited (ATPL), is engaged in the manufacture of yarn with an installed capacity of 139728 spindles , 6096 rotors for OE spinning and 104 gins. ATPL produces cotton yarn in both hank and cone forms in 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 mercerized yarns. The company also produces OE cone yarn in count ranging 16s to 28s. The company was initially started with 12,576 spindles in 1985 and has gradually expanding to the current capacities. The company is promoted by Mr. K. Srinivasa Rao and family members.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	318.24	355.48
PAT (Rs. crore)	18.59	12.86
OPBDIT/ OI (%)	18.26%	16.50%
RoCE (%)	11.00%	10.21%
Total Debt/ TNW (times)	1.41	1.22
Total Debt/ OPBDIT (times)	4.03	3.72
Interest coverage (times)	2.49	2.31
NWC/ OI (%)	49%	46%

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Term Loans	135.70	123.4	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	-	-
2	Working-capital Fund-based Limits	89.50	-	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	-	-
3	Non Fund-based Limits	9.16	-	[ICRA]A3+	[ICRA]A3+	-	-
4	Unallocated Limits	17.00	-	[ICRA]BBB (Stable)/A3+	[ICRA]BBB (Stable)/A3+	-	-

*As on March 31, 2017

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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	NA	NA	NA	89.50	[ICRA]BBB(stable)
Term Loan 1	FY2012-16	NA	FY2030	75.2	[ICRA]BBB(stable)
Term Loan 2	Jan 2015	NA	FY2030	40.50	[ICRA]BBB(stable)
Term Loan 3	June 2015	NA	FY2024	20.00	[ICRA]BBB(stable)
Letter of Credit & Bank Guarantee	NA	NA	NA	9.16	[ICRA]A3+
Unallocated Limits				17.00	[ICRA]BBB(stable)/A3+

Source: ATPL

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