

Amaravathi Textiles Private Limited

July 05, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	175.80	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	9.05	CARE A3 (A Three)	Revised from CARE A4 (A Four)
Total Facilities	184.85 (Rs. One Hundred Eighty-Four Crore and Eighty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Amaravathi Textiles Private Limited (ATPL) is driven by improvement in total operating income and liquidity position during FY22 (refers to the period April 01 to March 31). The ratings continue to draw strength from experienced and resourceful promoters with established track record, diversified geographical presence and wide customer base, satisfactory operational performance, comfortable financial risk profile and favourable industry outlook. The rating strengths are, however, partially offset by, volatility in raw material prices, working capital intensive nature of operations, delay in receipt of subsidy extended by Andhra Pradesh government, stretched debtors from solar power unit, and company's presence in a regulated and fragmented industry.

Rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade:

- ✓ Average utilisation of fund-based WC limits falling below 70% on a sustained basis.
- ✓ Improvement in ROCE and RONW parameters over and above 10x
- ✓ Substantial collection of pending receivables

Negative Factors- Factors that could lead to negative rating action/downgrade:

- × Increase in the overall gearing of the company over and above 1.50x
- × Decline in the PBILDT margins below 8%
- × Any notable deterioration in the liquidity position and/or elongation in operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Satisfactory income levels albeit fluctuating profitability margins

ATPL has demonstrated satisfactory income levels during FY18-FY22 with a CAGR of 8.49%. The Total Operating Income (TOI) of the company witnessed significant growth of 92% in FY22 vis-à-vis FY21 on account of increase in volumes and better realization in yarn segment, cotton yarn sales improved from 241.43 crore in FY21 to Rs. 475.72 crore in FY22. The capacity utilization levels of the company have been at satisfactory levels of more than 70% for spindles and more than 25% for rotors the past three-year period ended FY22.

During FY22, the PBILDT margins although remain satisfactory, marginally declined from 14.85% in FY21 to 13.18% in FY22 owing to increase in the raw material costs. The raw material costs to total sales of the company increased from 54% in FY21 to 65% in FY22. In line with the PBILDT margins, the PAT margins also declined from 5.48% in FY21 to 4.38% in FY22.

Experienced and resourceful promoters with established track record

ATPL has been promoted by K Srinivasa Rao who has more than 3 decades of established presence and market relations in the knitting and woven yarn markets of South India, having catered to the medium and finer count requirements. ATPL has 139,728 spindles, 6,096 rotors and 104 gins.

Furthermore, promoters are resourceful and have been infusing need-based funds. Total unsecured loans from promoters outstanding as on March 31, 2022, stood at Rs. 35.00 crore.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Favourable location of operations

The company has locational advantage with the manufacturing facilities located at Guntur district which is one of the prominent cotton growing belts in Andhra Pradesh. Furthermore, the plant is also in proximity to Khammam & Warangal, prominent cotton growing belts in Telangana region providing easy off take. ATPL procures cotton from Guntur, Adilabad, Warangal, Khammam, etc.

Diversified customer and supplier base with established long-term relationship

The company is in spinning industry for many years and has established long term contacts with the suppliers and customers. Suppliers spread all over India, particularly, AP, Karnataka, and Telangana. Company purchases cotton lint on the basis of sample selection with testing in its own laboratory. Since the company is dealing higher (finer) counts of cotton yarn as well as processed hank yarn, its customers are specific and almost permanent. The contribution from top 10 customers in FY22 was about 42%.

Diversified geographical presence, premium product segment

ATPL has diversified geographical presence with products being exported to the markets of China, Portugal, Sri Lanka, Thailand etc. 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. The company's exports have been minimal as domestic demand is healthy and company is able to generate steady revenue from domestic markets. The export income contributed around 5% (PY: 11%) to the total sales during FY22.

Improvement in the financial risk profile

The overall gearing of the company remained comfortable and below unity at 0.76x as on March 31, 2022 (improved from 1.03x as on March 31, 2021) mainly on account of decrease in term loans and accretion of profits to net worth. Total debt to GCA of the company, improved significantly from 13.61x during FY21 to 4.83x during FY22 on account of higher GCA levels during FY22 coupled with decrease in term loans. PBILDT interest coverage ratio of the company, improved to 2.84x during FY22 from 1.63x during FY21.

Key Rating Weaknesses**Working capital intensive nature of operations**

Spinning is primarily a working capital-intensive business as the raw material availability is seasonal which results in high inventory holding period. Further, the procurement is primarily on cash basis which results in high working capital utilization during the months of availability which is October to April. The operating cycle of ATPL was shortened to 140 days for FY22 from 250 days in FY21 on account of reduced inventory holding period of upto 130 days as against 240 days for FY21. The inventory days are high as ATPL maintains a buffer inventory to meet sudden orders along with the long processing time, given the various stages of the manufacturing process. The average working capital utilization levels of the company was at satisfactory level at 85% for the 12 months ended May 2022.

Delay in receivables from DISCOM

The company has set up a 10 MW solar power plant in Andhra Pradesh during 2015 by incurring a project cost of Rs 67 crore. Company has entered PPA with Southern power distribution company of Andhra Pradesh Limited for a period of 25 years at a tariff of Rs. 5.84 per Kwh for the first year of operation and then escalated at 3% every year till 10th year and thereafter the tariff remains constant till 25th year.

There has been significant delays in receivables from the state DISCOM for its solar power plant. As on March 31, 2022; the total receivables pending amounted to Rs. 32 crore out of which Rs. 24.85 crore is outstanding for a period exceeding six months.

Power availability and subsidy from Andhra Pradesh Government on power tariff; however the same is delayed

The company is entitled to receive incentives under TUF interest subsidy from GoI and power subsidy reimbursement along with input tax credit under Mega Industrial Park Govt. of AP. As on March 31, 2022, subsidy receivable amounts to Rs. 48.12 crore (Interest subsidy of Rs. 19.11 crore and Power subsidy for Rs. 29.01 crore) pending since last 3 years.

Industry outlook -fluctuating raw material prices

Cotton, the key raw material has exhibited high volatility in prices in the past and in turn impacts the profitability of the company. The prices of cotton and yarn are governed by various factors such as area under cultivation, monsoon, export quota by Government, international demand-supply situation etc.

The prices of cotton yarn (40s combed spun yarn) hovered in the range of Rs.212 per kg to Rs.218 per kg during the period April-October 2020 which increased to Rs.220 per kg in November 2020 and continued to increase by 3%-4.5% on m-o-m basis during December 2020 – March 2021 backed by demand- supply mismatch in domestic and international markets and higher cotton prices.

Intense competition in the industry

The spinning industry is highly fragmented and competitive amid the presence of several organised and unorganised players. Intense competition in the industry impacts ATPL's ability towards pricing flexibility and bargaining power.

Liquidity analysis – Adequate

Liquidity is adequate characterized by sufficient cushion in accruals of around Rs 37 cr vis-à-vis scheduled repayment obligations of around Rs 28.82 crore and a moderate liquid funds balance of ~Rs. 3.3 Crore (PY: 3.95 crore). The working capital utilization remained moderate at around 85% during the past 12 months ending May 30, 2022. The liquidity is however supported by above unity current ratio of 1.59x and positive cash flow from operations at Rs 64.06 crore as on March 31, 2022.

Analytical approach – Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short term Instruments](#)

[Rating Methodology - Cotton Textile](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis – Non-Financial Sector](#)

[CARE's Policy on Default Recognition](#)

About the Company

Andhra Pradesh based Amaravathi Textiles Private Limited was incorporated in 1983 Mr. K. Srinivasa Rao and his family members. ATPL is engaged in manufactures yarn with installed capacities of 139,728 spindles at its unit located in Prakasam district of Andhra Pradesh. The company also operates a 10 MW solar power plant in Andhra Pradesh.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (P)
Total operating income	280.23	256.64	491.81
PBILDT	35.52	38.10	64.82
PAT	-1.19	14.06	21.52
Overall gearing (times)	0.99	1.03	0.76
Interest coverage (times)	1.52	1.63	2.84

A: Audited, P -Provisional

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-ILC/FLC		-	-	-	8.75	CARE A3
Fund-based - LT-Funded Interest term Loan		-	-	June 2024	0.36	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	92.30	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	September 2029	83.14	CARE BBB-; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	0.30	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-ILC/FLC	ST	8.75	CARE A3	-	1)CARE A4 (09-Dec-21)	-	-
2	Fund-based - LT-Funded Interest term Loan	LT	0.36	CARE BBB-; Stable	-	1)CARE BB; Stable (09-Dec-21)	-	-
3	Fund-based - LT-Cash Credit	LT	92.30	CARE BBB-; Stable	-	1)CARE BB; Stable (09-Dec-21)	-	-
4	Fund-based - LT-Term Loan	LT	83.14	CARE BBB-; Stable	-	1)CARE BB; Stable (09-Dec-21)	-	-
5	Non-fund-based - ST-Credit Exposure Limit	ST	0.30	CARE A3	-	1)CARE A4 (09-Dec-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Funded Interest term Loan	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple
5	Non-fund-based - ST-ILC/FLC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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