

## Hindustan Textiles

May 14, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	33.72	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	4.80	CARE A4+ (A Four Plus)	Assigned
<b>Total Bank Facilities</b>	<b>38.52</b> <b>(Rs. Thirty-Eight Crore and Fifty-Two Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Hindustan Textiles (HT) are primarily tempered by exposure to intense competition in the cotton yarn industry coupled with partnership nature of business and profitability susceptible to volatility in raw material price.

However the rating derives strength from vast experience of the promoter with long track record of operations and benefits realized from captive power sources, growth in total operating income and healthy profitability margins, satisfactory capital structure and debt coverage indicators along with satisfactory operating cycle.

### Rating sensitivities

#### Positive factors

- Increase in scale of operation marked by TOI above Rs.130.00 crore while maintaining PBILD margin at 11% on a sustained basis.
- Periodical Improvement in capital structure marked by overall gearing below 0.75x.

#### Negative factors

- Capital withdrawal by partners or increase in debt levels leading to weakening of the capital structure indicated by overall gearing increasing beyond 1.40x and TDGCA increasing beyond 8x.
- Any elongation in working capital cycle leading to liquidity stress.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Exposure to intense competition in the cotton yarn industry coupled with partnership nature of business**

HT operates in a highly fragmented and unorganized market of the textile industry marked by large number of small sized players. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and supplier. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry. A business run by partners also poses a risk of heavy burden, i.e. an inherent risk of capital withdrawal, at a time of personal contingency which can adversely affect the capital structure of the firm. Moreover, the partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent. Nevertheless, in FY20 (Prov) the promoters have infused capital to the tune of Rs.2.04 crore to support its business development.

#### **Profitability susceptibility to volatility in raw material prices**

Prices of raw cotton are highly volatile in nature and depend upon the factors like area under cultivation, crop yield, international demand-supply scenario, export quota decided by the government and inventory carry forward of the previous year. Hence, the profitability margins of the company are susceptible to fluctuation in raw material prices.

#### Key Rating Strengths

#### **Vast experience of the promoters with long track record of operations**

Hindustan Textiles (HT) was promoted by Mr. D.Natarajan, along with N.Vanithamani and Mr. N.Krishnakumar respectively. The promoters of HT are qualified personnel and engaged in business for past three decades supported by team of qualified professional who runs the day to day activities. Further, the long track record of operations of the firm has enabled established relationship with the clientele base over the decade.

#### **Benefits realized from captive power sources**

Captive power reduces the dependency on the grid, reduces the cost of electricity which is an input to production processes, and surplus electricity can also be sold to the grid, thus bringing in multiple benefits. HT has 11 wind mills with total power generation capacity of around 9MW at various locations of Tamil Nadu. The firm meets around 95% of its power requirement from wind mills and the remaining from third parties and TANGEDCO. In addition to this, the firm also has its own 2KW solar power plant. Due to this, the firm has managed to setting off its power expenses to some extent.

### **Growth in total operating income and healthy profitability margins**

The total operating income of the firm increased at a Compounded Annual Growth Rate (CAGR) of 8.51% during FY18-FY20. The firm achieved total operating income of Rs. 119.35 Crore in FY20 (Prov.) viz a viz Rs. 112.26 Crore in FY19, registering 6.32% of growth aided by increase in yarn sales. During FY20, yarn sales increased at nominal pace, despite encountering industrial slowdown at the back of order inflows from its existing customer base. The profitability margin of HT stood healthy with gradual improvement Y-O-Y. PBILDT margin has improved by 114 bps from 9.84% in FY19 to 10.98% in FY20(Prov.). Further, with moderate increase in operating profit margins, the PAT margin of the firm perhaps improved marginally from 1.94% in FY19 to 2.12% in FY20(Prov.).

### **Satisfactory capital structure and debt coverage indicators**

HT's capital structure marked by overall gearing remained comfortable at 0.93x as on March 31, 2020 (Prov.), witnessed improvement as against 1.26x as on March 31, 2019 on the back of closure of term debts which was availed for purchase of machinery along with infusion of capital to the tune of Rs.2.04 crore to support its business activities.

The debt coverage indicators marked by interest coverage ratio, though deteriorated marginally due to increase in interest costs, remained comfortable at 4.02x in FY20 (Prov.) (PY: 4.49x). However, TD/GCA has improved and continued to remain satisfactory at 3.95x in FY20(Prov.) as against 4.65x in FY19 aided reduction in debt profile.

### **Satisfactory Operating cycle**

Being in textile industry, with work associated towards spinning of yarn, the firm operates in working capital intensive nature of business. The inventories are generally stocked up to 40 – 60 days in order to ensure seamless operations. The credit terms with supplier and customer remained comfortable at 30 days respectively, attributing established relationship. The payment to the suppliers are settled with a month span while on collection are generally day to day basis but for few customers the credit extends up to 30 days. Further, cotton industries have seasonality associated with availability of raw materials due to different harvesting periods of 3<sup>rd</sup> and 4<sup>th</sup> quarter, the reliance towards working capital bank borrowings remains high witnessed by the average utilisation of 80% for the month ended October 2020.

### **Proximity of the manufacturing plant to cotton cultivation areas**

The spinning facility of the firm is located in proximity to major cotton cultivation areas of Tamil Nadu, which results in ease of accessing of raw materials at competitive prices and minimal logistical expenses.

### **Liquidity analysis: Adequate**

Liquidity position of the firm is adequate marked by sufficient cash accruals of Rs.8.76 crore in FY20 against debt obligation of Rs. 3.86 crore in FY21 and cash balance of Rs. 1.16 crore as on March 31, 2020. The firm has also been generating positive cash flows from operations in the past (with Rs.15.52 cr. in FY20). HT's cash conversion cycle remained satisfactory at 30-40 days, which is comfortable when compared to other peers with similar line of business. The average utilization of working capital facility for the past twelve months ended October 2020 stood at 80%. The firm has not availed moratorium announced by RBI on COVID-19 outbreak for its debt obligations. The current ratio stood 0.96x as on March 31, 2020 deteriorated as against 2x as on March 31, 2019.

### **Analytical approach: Standalone**

#### **Applicable criteria**

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Criteria on Short Term Instruments](#)

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

### **About the Firm**

Hindustan Textiles (HT) was established as a partnership concern by Mr. D.Natarajan, Mrs. N.Vanithamani and Mr.N.Krishnakumar in 1977 at Coimbatore, Tamil Nadu. The firm is engaged in cotton spinning, manufacturing of cotton yarns in count range of 34s and 40s, at its two manufacturing facilities, located at MTP Road, Vadamadurai (Unit-A) and T.M. Palayam Jothipuram (Unit-B), with an aggregate installed capacity of 36912 spindles as on March 31, 2020. The promoters, assisted by a team of professionals run the day-to-day activities of the firm.

<b>Brief Financials (Rs. Crore)</b>	<b>FY19 (A)</b>	<b>FY20(Prov.)</b>
Total operating income	112.27	119.35
PBILDT	11.05	13.11
PAT	2.18	2.53
Overall gearing (times)	1.26	0.93
Interest coverage (times)	4.49	4.03

A:Audited; Prov : Provisional

**Status of non-cooperation with previous CRA:** CRISIL has conducted the review on the basis of best available information and has classified Hindustan Textiles as “Not Cooperating” vide its press release dated March 17, 2020.

**Any other information:** Not applicable

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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	18.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	June 2026	15.72	CARE BB+; Stable
Non-fund-based - ST-ILC/FLC	-	-	-	4.80	CARE A4+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	18.00	CARE BB+; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	15.72	CARE BB+; Stable	-	-	-	-
3.	Non-fund-based - ST-ILC/FLC	ST	4.80	CARE A4+	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-ILC/FLC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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