Amaravathi Textiles Private Limited

July 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	93.51 (Reduced from 114.63)	CARE BB+; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	9.05	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the outlook of ratings assigned to bank facilities of Amaravathi Textiles Private Limited (ATPL) is driven by deteriorating financial risk profile, modest scale of operations, profitability margins susceptible to fluctuating raw material prices and its stretched liquidity position. Ratings are tempered by working capital intensive operations, delay in receipt of subsidy extended by Andhra Pradesh government and the company's presence in a regulated and fragmented industry. However, ratings derive comfort from experienced and resourceful promoters with established track record, premium product segment with wide customer base and stable revenue from solar power plant.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations to above ₹400.00 crore, while maintaining PBILDT margins over 12%.
- Average utilisation of fund-based working capital limits falling below 70% on a sustained basis.

Negative factors

- Increasing overall gearing above 1.50x.
- Reporting losses at profit before interest, lease rentals, depreciation, and taxation (PBILDT) level.
- Deteriorating liquidity position and/or elongating operating cycle.

Analytical approach: Standalone

Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' due to continuing deterioration in financial risk profile with net loss and lower gross cash accruals (GCA) in FY24 with stretched liquidity. Though the performance is expected to improve because of easing cotton prices, it is susceptible considering high debt repayment and tightly matched accruals, which can potentially lead to moderation in the company's financial performance and liquidity profile. The outlook may be revised to 'Stable' if the company is able to achieve a better-than-envisaged operational performance, while improving its debt service coverage ratios and maintaining adequate liquidity by infusing funds through unsecured loans by promoters.

Detailed description of key rating drivers:

Key weaknesses

Moderate financial risk profile

Scale of operations improved yet remained lower in FY24 considering lower demand from domestic and international markets. Good realisation in the hank yarn segment led to stable in income from cotton yarn sales. Total operating income (TOI) remained at ₹249 crore in FY24 in similar range with FY23. Lower margins are considering procuring raw material at very high costs and

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

decline in demand of cotton yarn in domestic and international markets. Hence, ATPL reported lower PBILDT of ₹14.84 crore but net loss of ₹14 crore in FY24. The company's debt profile primarily comprises term loans, unsecured loans and working capital borrowings. The company's overall gearing remained moderate and below unity at 0.69x as on March 31, 2024 (improved from 0.74x as on March 31, 2023) mainly considering losses in the last two years, leading to depleting net worth. Total outstanding liabilities to total net worth (TOL/TNW) as on March 31, 2024, stood at 0.97x and PBILDT interest coverage stood weak at 0.98 x in FY24. Going further, debt metrics are expected to remain in same line.

Working capital intensive operations

Spinning is primarily a working capital-intensive business as raw material availability is seasonal, which results in high inventory holding period. Procurement is primarily on cash basis, which results in high working capital utilisation in the months of availability, which is October to April. ATPL's operating cycle improved from 210 days for FY23 to 168 days in FY24 considering significant improvement in collection period from 58 days in FY23 to 31 days in FY24. The inventory days are high as ATPL maintains a buffer inventory to meet sudden orders and long processing time, given several stages in the manufacturing process. Average working capital utilisation levels were at high at 99% for 12-months ended April 2024. Since May 2023, cash credit (CC) limits have been reduced from ₹57.47 crore to ₹53 crore.

Power availability and subsidy from Andhra Pradesh Government on power tariff; which is delayed

The company is entitled to receive incentives under TUFS interest subsidy from GoI, power subsidy reimbursement and input tax credit under Mega Industrial Park Govt. of AP. The company is eligible for power subsidy since June 2007 for ten years on units consumed in respect of new capacities created as part of expansions carried out from 2007-2009, from the state government in terms of Mega Park concessions approved by the AP Govt. As on March 31, 2024, subsidy receivable amounts to ₹37.91 crore (Interest subsidy of ₹10.88 crore and Power subsidy for ₹27.03 crore).

As a result, working capital rotation was adversely affected as funds accruing in the system were not readily available for use to support the working capital cycle in the immediate six months (till realisation).

Intense competition in the industry

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

Susceptibility of profitability to volatile cotton prices

The company's profitability is susceptible to raw cotton price movements, which is the key raw material for cotton yarn production. Raw cotton prices are volatile and depend on factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota and minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile in the last couple of years, which translates into risk of inventory losses for industry players. Lower production considering lower rainfall in cotton growing states, higher exports of cotton, increased consumption is expected to lead to firm cotton prices going forward.

Key strengths

Experienced and resourceful promoters with established track record

ATPL is promoted by K Srinivasa Rao, who has over three decades of experience and established market relations in knitting and woven yarn markets of South India. His expertise likely contributes to ATPL's success and growth. ATPL operates with 139,728 spindles and 5,376 rotors. These are essential components for yarn production, indicating the company's capacity and scale. Promoters have been actively infusing funds as needed. This financial support is crucial for sustaining operations and expansion.

As of March 31, 2024, ATPL had outstanding unsecured loans from promoters and intercorporate deposits totalling ₹36.90 crore. This financial stability reflects the company's ability to manage its liabilities.

Favourable location of operations

The company has locational advantage with manufacturing facilities at Guntur district, which is one of the prominent cotton growing belts in AP. The plant is also in proximity to Khammam and Warangal, prominent cotton growing belts in Telangana region providing easy off-take. ATPL procures cotton from Guntur, Adilabad, Warangal, and Khammam, among others.

Presence in premium product segment

ATPL's product portfolio spans medium and finer yarn counts. These yarns cater to different customer needs and applications. The company adds value through specialised yarn types, such as compact, gassed, and mercerized yarn. Since the company is dealing higher (finer) counts of cotton yarn and processed hank yarn, its customers are specific and almost permanent. Over the years of its presence in the industry, the company has established healthy relationship with many suppliers and customers. The company's exports have been minimal as exports demand was low however the company was able to generate steady revenue from domestic markets.

Revenue diversification through solar power plant

ATPL has established 10 MW solar plant at a cost of ₹67 crore at Nelloorepalem village in Nellore district (AP) in 2015. The company has entered a long-term power purchase agreement (PPA) with M/s Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) for 25 years.

Liquidity: Stretched

Liquidity is stretched, characterised by lower cash accruals of around ₹0.12 crore against scheduled repayment obligations of around ₹13 crore and a moderate liquid funds balance of ~₹2.17 crore. Working capital utilisation remained high at around 99% in the 12-months ending April 30, 2024. The company managed to pay its obligations through release of funds from DISCOMS receivables, which resulted in above-unity current ratio of 1.27x and positive cash flow from operations at ₹34.36 crore as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Cotton Textile

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

AP-based ATPL was incorporated in 1983 by K. Srinivasa Rao and his family. ATPL is engaged in manufacturing yarn with installed capacities of 139,728 spindles at its unit in Prakasam district of Andhra Pradesh. The company also operates a 10 MW solar power plant in Andhra Pradesh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	249.45	249.40
PBILDT	-5.45	14.84
PAT	-34.93	-14.02
Overall gearing (times)	0.74	0.69
Interest coverage (times)	-0.34	0.97

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: N.A.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	53.00	CARE BB+; Negative
Fund-based - LT-Funded Interest term Loan		-	-	30-06-2024	0.01	CARE BB+; Negative
Fund-based - LT-Term Loan		-	-	30-09-2029	40.50	CARE BB+; Negative
Non-fund-based - ST-Credit Exposure Limit		-	-	-	0.30	CARE A4+
Non-fund-based - ST-ILC/FLC		-	-	-	8.75	CARE A4+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-ILC/FLC	ST	8.75	CARE A4+	-	1)CARE A4+ (09-Jun-23)	1)CARE A3 (05-Jul-22)	1)CARE A4 (09-Dec-21)
2	Fund-based - LT-Funded Interest term Loan	LT	0.01	CARE BB+; Negative	-	1)CARE BB+; Stable (09-Jun-23)	1)CARE BBB-; Stable (05-Jul-22)	1)CARE BB; Stable (09-Dec-21)
3	Fund-based - LT-Cash Credit	LT	53.00	CARE BB+; Negative	-	1)CARE BB+; Stable (09-Jun-23)	1)CARE BBB-; Stable (05-Jul-22)	1)CARE BB; Stable (09-Dec-21)
4	Fund-based - LT-Term Loan	LT	40.50	CARE BB+; Negative	-	1)CARE BB+; Stable (09-Jun-23)	1)CARE BBB-; Stable (05-Jul-22)	1)CARE BB; Stable (09-Dec-21)
5	Non-fund-based - ST-Credit Exposure Limit	ST	0.30	CARE A4+	-	1)CARE A4+ (09-Jun-23)	1)CARE A3 (05-Jul-22)	1)CARE A4 (09-Dec-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated: Not applicable

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

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