

Rating Advisory

April 30, 2020 | Mumbai

Amarjothi Spinning Mills Limited

Advisory as on April 30, 2020

This rating advisory is provided in relation to the rating of Amarjothi Spinning Mills Limited

The key rating sensitivity factors for the rating include:

- Impact on operations due to volatility in cotton prices and customer relationships
- Scalability of revenues while maintaining the operating profitability
- Capital expenditure (capex) plans and their funding
- Working capital management

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Amarjothi Spinning Mills Limited (ASML) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If ASML continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Group

Incorporated in 1987, ASML is currently managed by its chairman, Mr N Rajan. The company manufactures value-added mélange yarn from which entire revenue is derived. The manufacturing unit is based in Tirupur, Tamil Nadu.

Please note: This advisory should not be construed as a rating reaffirmation.

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Rating Rationale

August 14, 2019 | Mumbai

Amarjothi Spinning Mills Limited

Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.10 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed 'CRISIL BBB+/Stable' rating on the bank facility of Amarjothi Spinning Mills Limited (ASML).

The ratings continue to reflect ASML's established market position in the melange yarn segment supported by the extensive experience of its promoters and their established customer relationships. The ratings also factor in the above-average financial risk profile because of healthy net worth, low reliance on external debt and comfortable debt protection metrics. Furthermore, the ratings are supported by the strong financial support ASML receives from its promoters in the form of unsecured loans. These strengths are partially offset by the moderate scale with working capital-intensive operations and the susceptibility of operating performance to volatility in raw material prices.

Analytical Approach

For arriving at its rating, CRISIL has combined the business and financial risk profiles of ASML and its associate entities: Amarjothi Power Generation and Distribution Company Ltd, Amarjothi Wind Farms, South West Wind Farms, North East Wind Farms. This is because all the entities, collectively referred to as the Amarjothi group, have a common management and have business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Established market position in the melange yarn segment supported by the extensive experience of promoters and their established customer relationships:** The group benefits from the extensive experience of Mr N Rajan, Mr R Premchander and Mr R Jaichander of nearly three decades, in the melange yarn segment.

*** Above-average financial risk profile:** Networth and total outside liabilities to tangible networth ratio (TOLTNW) were comfortable at Rs.127 crore and 0.85 times respectively as on March 31, 2019. The gearing is expected to remain comfortable over the medium term, aided by the absence of major debt funded capital expenditure (capex). Interest coverage and net cash accruals to total debt ratio were at around 3.25 times and 22 percent respectively for fiscal 2019.

Weakness:

*** Working capital-intensive operations:** Operations are working capital intensive with high gross current assets of 217 days as on March 31, 2019, driven by sizeable inventory and moderate debtors.

*** Moderate scale of operations and susceptibility to volatility in input prices:** The yarn industry is fragmented and dominated by numerous small, un-organised players and a few large players. With operating income of Rs 223 crore in fiscal 2019, scale remains moderate. Group's key raw material, cotton, is a seasonal commodity; the input costs of spinners usually align themselves to variations in the cotton yarn realisations with a significant time lag rendering margins vulnerable to volatility in input costs.

Liquidity

Liquidity is adequate marked by the working capital limits being sparingly utilised and absence of repayment obligations. The fund based working capital bank limits have been utilised at around 10 percent for the twelve month ended May 2019. The group is expected to generate cash accrual in excess of Rs.20 crore per annum, against which there are no maturing repayment obligations. Further liquidity is also supported by funding support in the form of unsecured loans from promoters, which were at around Rs.108 crore as on March 31, 2019. Current ratio was comfortable at around 1.84 times as on March 31, 2019.

Outlook: Stable

CRISIL believes the group will continue to benefit from its promoters' extensive experience and established relationships with customers. The outlook may be revised to 'Positive' if greater-than-expected increase in revenue, stable profitability strengthens business risk profile. The outlook may be revised to 'Negative' if decline in profitability, or stretch in working capital cycle or sizeable debt-funded capital expenditure weakens capital structure.

About the Group

--Incorporated in 1987, ASML is currently managed by its chairman, Mr N Rajan. The company manufactures value-added melange yarn from which entire revenue is derived. The manufacturing unit is based in Tirupur, Tamil Nadu.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	223.3	189.93
Profit after tax (PAT)	Rs crore	15.74	14.93
PAT margin	%	7.05	7.86
Adjusted debt/adjusted networth	Times	0.89	1.43
Interest coverage	Times	3.49	3.53

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	10	CRISIL BBB+/Stable

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Amarjothi Spinning Mills Limited	100%	Operational and financial fungibilities
Amarjothi Power Generation and Distribution Company Ltd	100%	Operational and financial fungibilities
South West Wind Farms	100%	Operational and financial fungibilities
North East Wind Farms	100%	Operational and financial fungibilities
Amarjothi Wind Farms	100%	Operational and financial fungibilities

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	10.00	CRISIL BBB+/Stable			22-05-18	CRISIL BBB+/Stable	03-02-17	CRISIL BBB+/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	10	CRISIL BBB+/Stable	Cash Credit	10	CRISIL BBB+/Stable
Total	10	--	Total	10	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Cotton Textile Industry](#)

[CRISILs Criteria for Consolidation](#)

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