February 21, 2022

Acsen Tex Private Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Cash Credit	50.00	50.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB-(Stable)
Long Term - Fund Based – Term Loans	18.55	59.29	[ICRA]BBB (Stable); upgraded from [ICRA]BBB-(Stable)
Short Term – Non-Fund Based facilities	-	1.50	[ICRA]A3+; upgraded from [ICRA]A3
Short Term – Fund Based Limits	-	5.00	[ICRA]A3+; upgraded from [ICRA]A3
Short Term – Interchangeable limits	(75.00)	(50.00)	[ICRA]A3+; upgraded from [ICRA]A3
Long Term – Unallocated	0.45	0.00	-
Total	**69.00**	**115.79**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Acsen Tex Private Limited (ATPL) and Rasi G Energy Private Limited (RGEPL), as both the companies enjoy strong linkages and have common promoters. Both the companies together are referred to as the Group.

The ratings upgrade reflects the better-than-expected performance of ATPL in the current fiscal, and the anticipated steady operational and financial performances in the coming quarters, supported by favourable demand conditions, its established presence and a diversified revenue base. Post the pandemic-induced business disruptions in H1 FY2021, ATPL's revenues and earnings have improved in the recent quarters, resulting in strong revenue growth and expansion in contribution margins. Post the 25% decline in revenues in FY2021, ATPL's revenues are expected to register a strong growth of more than 40% in FY2022 with demand and prices remaining favourable. Better yarn realisations have also improved the operating margins in the recent quarters, and the margins are likely to be at more than 15% in the current fiscal. While the operating margins and earnings are likely to moderate in FY2023 from the current high levels, they are expected to remain adequate to meet the incremental capital expenditure and working capital funding requirements.

This steady growth in earnings also aided in improvement in debt protection metrics, with key credit metrics including total debt to operating profits and debt service coverage ratio likely to improve to around 2.5 times and 3.5 times, respectively, in FY2022. Despite the ongoing expenditure towards modernisation of the spinning capacity and addition of captive solar power, combined to the tune of around Rs. 40 crore in FY2022 and FY2023, debt protection metrics and liquidity position are expected to remain at adequate levels. ICRA expects ATPL's total debt to operating profits and debt service coverage ratio to be at around 3.5 times and 1.8 times, respectively in FY2023. The ratings remain constrained by the moderate scale of operations, high working capital requirements in the business and moderate customer concentration risks. Further, ATPL's revenues and earnings remain exposed to availability and price fluctuations of raw materials in an intensely competitive and fragmented industry, which limits pricing flexibility.

The Stable outlook reflects ICRA's opinion that ATPL will continue to benefit from the favourable demand conditions, established relationship with its clientele and the extensive experience of promoters in the textile industry.

Key rating drivers and their description

Credit strengths

Established presence and diversified revenue base – ATPL has an established presence in the textile industry spanning more than two decades, resulting in long relationships with suppliers and customers, driving repeat business. Further, ATPL's diversified product base comprising cotton and various blends in the viscose yarn in the counts ranging from 20's to 40's, provides operational flexibility. ATPL derived around 55% of its revenue from cotton yarn, and the remaining from the viscose segment in FY2021.

Comfortable coverage metrics – ATPL's financial profile has improved in the recent past, characterised by adequate leverage metrics and coverage indicators, supported by a steady growth in earnings witnessed since H2 FY2021. Key metrics including total debt to operating profits and DSCR were at comfortable levels of around 1.5 times and 4.0 times, respectively, in 8M FY2022. ATPL's credit metrics are expected to remain adequate, aided by better earnings despite the proposed capital expenditure to be incurred by the company.

Credit challenges

Moderate scale of operations and concentration risks – ATPL's scale of operations remains moderate, with an operating income of around Rs. 200 crore expected in FY2022, limiting the economies of scale and financial flexibility in a capital-intensive sector. Revenues are also exposed to asset concentration and customer concentration risks, with the top ten customers accounting for ~60% of its total sales in FY2021. These risks are buffered by ATPL's diversified product base, which supports its profitability and long relationship with its key customers, and lend some stability to revenues.

Limited pricing flexibility and moderately high working capital intensity in the business – ATPL's earnings remain exposed to volatility in key raw material prices as it has a relatively limited pricing flexibility in a fragmented industry with intense competition. Further, ATPL's working capital intensity has been moderately high due to inventory stocking undertaken during the cotton season given the seasonality associated with raw material availability.

Liquidity position: Adequate

ATPL's liquidity position is expected to remain adequate, backed by steady earnings from operations and adequate unutilised lines of credit. The company has unutilised lines of credit of around Rs. 40 crore against its fund-based limits as on November 30, 2021. The average utilisation of its working capital limits stood at around 70% over the 12-month period ending November 30, 2021. The company is expected to incur capex of around Rs. 40 crore in FY2022 and FY2023 combined, and the repayment obligations are at moderate levels of Rs. 4 crore in FY2022 and Rs. 8 crore in FY2023. The same is expected to be part funded by term loans and the remaining through earnings from operations, with ATPL's accruals from operations likely to be at around Rs. 50 crore for the period.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to register a sustained improvement in revenues and earnings, while maintaining comfortable debt protection metrics and liquidity position.

Negative factors – ICRA could downgrade the ratings, if there is any sustained pressure on the operating performance, or any large debt-funded capital expenditure, which could adversely impact the coverage metrics and liquidity position. Specific metrics ICRA could monitor include the DSCR declining to levels below 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of ATPL and RGEPL, considering the common promoter holding and strong linkages.

About the company

ATPL, a small-scale spinning unit in Tamil Nadu, commenced commercial production in 1998 with 10,080 spindles. The capacity has been augmented over the years to the current levels of 37,536 spindles. The company's product profile consists of both cotton and viscose yarn on the coarser counts ranging from the 20s to 40s and most of its produce is supplied to the hosiery market of Tirupur in Tamil Nadu.

Key financial indicators

	ATPL Standalone		ATPL Consolidated	
	FY2020	FY2021	FY2020	FY2021
Operating Income (Rs. crore)	173.0	125.9	174.7	131.4
PAT (Rs. crore)	0.2	4.3	0.0	6.2
OPBDIT/OI (%)	4.9%	11.4%	5.5%	14.1%
PAT/OI (%)	0.1%	3.4%	0.0%	4.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.0	3.4	2.1	2.3
Total Debt/OPBDIT (times)	8.5	6.8	7.5	5.2
Interest Coverage (times)	1.9	3.4	2.2	4.4

Source: ATPL; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					February 21, 2022	January 05, 2021	October 22, 2019	November 01, 2018	September 28, 2018
1	Cash Credit	Long-term	50.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loans	Long-term	59.29	25.47	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non-Fund Based facilities	Short-term	1.50	-	[ICRA]A3+	-	-	-	-
4	Fund Based Limits	Short-term	5.00	-	[ICRA]A3+	-	-	-	-
5	Interchangeable limits	Short-term	(50.00)	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
6	Unallocated	Long-term	0.00	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Source: ATPL

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based – Cash Credit	Simple
Long Term - Fund Based – Term Loans	Simple
Short Term – Non-Fund Based facilities	Very Simple
Short Term – Fund Based Limits	Very Simple
Short Term – Interchangeable limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]BBB(Stable)
NA	Term Loans	FY2020	NA	FY2028	59.29	[ICRA]BBB(Stable)
NA	Non-Fund Based facilities	NA	NA	NA	1.50	[ICRA]A3+
NA	Fund Based Limits	NA	NA	NA	5.00	[ICRA]A3+
NA	Interchangeable limits	NA	NA	NA	(50.00)	[ICRA]A3+

Source: ATPL

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	LTHL Ownership	Consolidation Approach
Rasi G Energy Private Limited	22.67%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1100
kaushikd@icraindia.com

Balaji M
+91 44 4596 4317
balaji.m@icraindia.com

Asfar Mohamed
+91 44 4297 4313
asfar.mohamed@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches