



Press Release

Kumar Cotton Mills Private Limited

August 29, 2023

Ratings

Instrument/Facility	Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	35.22	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facility	2.78 (Includes proposed limit of Rs. 0.78 Crore)	IVR A3 (IVR A Three)	Assigned	Simple
Total	38.00 (Rs. Thirty- Eight Crore Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Kumar Cotton Mills Private Limited (KCMPL) derives comfort from the long track record of operation of the company under experienced promoters, strategic location of the plant and comfortable financials risk profile. These rating strengths are, however, constrained by the relatively moderate scale of current operations, working capital-intensive nature of business, susceptibility of profitability to volatility in raw material prices and exposure to cyclicalities and inherent in the textile industry.

Key Rating Sensitivities:

Upward Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure leading to improvement in debt protection metrics.

Downward Factors

- Deterioration in operating performance with sluggish demand and deterioration in coverage ratios with higher leverage will be credit negative.



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- Any significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Management and long track records of operations

The Promoters of the company, Mr. Rajendra Prasad R Agarwal and Mr. Kumar Agarwal are running the business and have over two decades of experience in dyeing and processing of cotton yarn in textile industry. The company has established its track record of operations since 1979.

Comfortable financials risk profile

The scale of operations stood modest as the Total Operating Income stood at Rs.251.49 Crs in FY23 compared to Rs.199.05 Crs in FY22. The EBITDA stood moderate at Rs.13.71 Crs in FY23 compared to Rs.12.83 Crs in FY22. The company's adjusted net worth as on March 31, 2023 consist of subordinated unsecured loans aggregating to Rs. 18.81 crore from the promoters which is considered as quasi equity. Considering the same the adjusted tangible net worth of the group stood at Rs.48.67 crore as on March 31, 2023 compared with Rs.42.92 crore as on March 31, 2022. The overall gearing of the Company on adjusted tangible networkth stood at 0.77 times as on March 31, 2023 compared to 0.80 times as on March 31,2022. ISCR and DSCR stood also comfortable at 3.03 times and 1.20 times respectively in FY23.

Key Rating Weaknesses

Relatively moderate scale of current operations: The scale of operations of the company remained moderate over the years despite its long track record of operations. The total



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operating income of the company stood at ~Rs.251.49 crore in FY23 which is relatively moderate which restricts the financial risk profile of the company to an extent. Infomerics notes that the growth in the scale of operations of the company will be a key rating determinant, going forward.

Working capital intensive nature of business

The company's operations are working capital intensive as the company is into dyeing and processing of yarn where high inventory and debtors are maintained. The working capital cycle is majorly dominated by high receivable days. The receivable days stood at 92 days in FY23.

Susceptibility of profitability to volatility in raw material prices

The profitability of textile fabrics business is directly correlated to variations in the prices of the yarn. The Company mainly uses cotton and rayon yarn. Cotton yarn's price varies with the price of cotton which is affected by agro-climatic conditions, Minimum Support Price (MSP) decided by the Central government and the demand from raw cotton export market. So if any upside volatility of raw material prices can adversely affect the profitability of the Company.

Exposure to cyclical, inherent in the textile industry

The textile industry is highly cyclical. Cotton and yarn prices fluctuate based on macro-economic factors, including, amongst others, demand-supply scenarios, monsoons, etc. Adverse volatility in yarn and/or cotton prices will have an adverse effect on the Company's performance.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate



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The liquidity profile of the Company is expected to remain adequate with satisfactory cash accruals vis a- vis debt repayment obligations. The current ratio of the Company was also comfortable at 1.23x and 1.29x as on March 31, 2022 and March 31, 2023 respectively. Current ratio is expected to remain comfortable between 1.36x and 1.52x during March 31, 2024 and March 31, 2026. The operating cycles were comfortable at 62 and 56 days respectively in FY22 and FY23 and are expected to remain between 62 and 64 days during FY24-FY26. The average cash credit utilisation of the Company remained comfortable at ~68% during the past 12 months ended July 31, 2023 indicating a liquidity cushion. Liquidity is also supported by a comfortable ISCR & DSCR of 3.03 times and 1.20 times respectively in FY 23. The gross cash accruals of Rs. 8.39 crore in FY23 as against maturing debt obligations of Rs. 3.65 crores, while cash and bank balances stood comfortable at Rs.1.17 Crs as on March 31st, 2023. Further the Company presently does not have any major debt-led capex plans.

About the Company

Kumar Cotton Mills Private Limited (KCMPL) is an Ahmedabad, Gujarat based private limited company incorporated in 1990 by Mr. Rajendra Prasad Ramkumar Agarwal. KCMPL engaged in dyeing and processing of cotton yarn to make grey fabric and undertakes job work for dyeing fabric for textile manufacturing companies. The manufacturing and processing unit located in Gujarat with installed capacity for dyeing 546 million meters and Weaving 70 million meter per annum. The overall operation of the company being managed by Mr. Rajendra Prasad Ramkumar Agarwal and Mr. Kumar Agarwal directors of the company.

Financials (Standalone):

For the year ended* / As on	(Rs in Crore)	
	31-03-2022	31-03-2023



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	Audited	Audited
Total Operating Income	199.05	251.49
EBITDA	12.83	13.71
PAT	2.13	2.74
Total Debt	34.17	37.72
Tangible Net worth	27.12	29.85
Adjusted Tangible Net worth	42.92	48.67
EBITDA Margin (%)	6.45	5.45
PAT Margin (%)	1.43	1.36
Overall Gearing ratio (X)	1.84	1.89
Adjusted Gearing ratio (X)	0.80	0.77

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	3.22	IVR BBB-/ Stable	-	-	-
2.	WCDL*	Long Term	32.00	IVR BBB-/ Stable	-	-	-
3.	Bank Guarantee	Short Term	2.00	IVR A3	-	-	-
4.	Proposed Bank Guarantee	Short Term	0.78	IVR A3	-	-	-

**Cash Credit of Rs.12.00 crore is a sublimit of WCDL*

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About Infomerics Ratings:



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Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
Term Loan 1	-	-	June 2025	0.45	IVR BBB-/ Stable
Term Loan 2	-	-	November 2023	0.37	IVR BBB-/ Stable



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Term Loan 3	-	-	October 2023	0.63	IVR BBB-/ Stable
Term Loan 4	-	-	September 2024	1.77	IVR BBB-/ Stable
WCDL*	-	-	-	32.00	IVR BBB-/ Stable
Bank Guarantee	-	-	-	2.00	IVR A3
Proposed Bank Guarantee	-	-	-	0.78	IVR A3

**Cash Credit of Rs.12.00 crore is a sublimit of WCDL*

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lender-kcmpl-29Aug23.pdf>

Annexure 4: Detailed explanation of covenants of the rated facilities: Not Applicable.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.