



Press Release

Kumar Cotton Mills Private Limited

December 17, 2024

Ratings

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|----------------------------|--|--|---|---|--------------------------------------|
| Long Term Bank Facilities | 49.22 (enhanced from Rs.35.22 crore) | IVR BBB-/ Stable (IVR triple B minus with Stable outlook) | IVR BB+/ Negative ISSUER NOT COOPERATING* (IVR double B plus with Negative Outlook Issuer Not Cooperating) | Upgraded and removed from Issuer Not Cooperating category; long-term rating outlook revised from 'Negative' to 'Stable' | Simple |
| Short Term Bank Facilities | 0.78 (reduced from Rs.2.78 crore) (includes proposed facility of Rs.0.78 Cr) | IVR A3 (IVR A three) | IVR A4+ ISSUER NOT COOPERATING* (IVR A four plus Issuer Not Cooperating) | Upgraded and removed from Issuer Not Cooperating category | Simple |
| Total | 50.00 (Rupees fifty crore only) | | | | |

**Issuer did not cooperate; based on best available information*

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Earlier Infomerics had moved the ratings of Kumar Cotton Mills Private Limited (KCMPL) into Issuer Not Cooperating category vide its press release dated October 04, 2024, due to non-submission of information required for detailed review of the company. However, the company started cooperating and submitted required information. Consequently, Infomerics has removed the rating from 'ISSUER NOT COOPERATING' category and upgraded the ratings.

The upgrade in the ratings of the bank facilities of Kumar Cotton Mills Private Limited (KCMPL) has taken into account the above average financial risk profile buoyed by comfortable leverage structure. Further, the ratings also factor in long track record of operations, experienced management, established market position and moderate working capital management. However, the ratings are constrained by modest scale of operations and susceptibility of profitability to volatility in raw material price and exposure to cyclicalities, inherent in the textile industry.



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The outlook of KCMPL is expected to remain stable as it is supposed to benefit from the extensive experience of the management coupled with above average financial risk profile.

Infomerics has also withdrawn the outstanding long-term rating of 'IVR BB+/ Negative Issuer Not Cooperating' assigned to the term loan of KCMPL with immediate effect. The withdrawal has been taken at the request of KCMPL and 'No Due Certificate' received from Kotak Mahindra bank that had extended the facilities rated by Infomerics. The ratings are withdrawn in accordance with Infomerics' policy on withdrawal. Link to the withdrawal policy is provided below.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of operations with improvement in profitability and cash accruals.
- Improvement in the capital structure and debt protection metrics on a sustained basis.
- Managing working capital requirements efficiently leading to improvement in the operating cycle with improvement in liquidity.

Downward Factors

- Decline in the revenue and/ or profits leading to an overall deterioration in the financial risk profile of the company.
- Moderation in the capital structure and/ or coverage indicators.
- Elongation in the operating cycle with moderation in liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operations and experienced management**

Kumar Cotton Mills Private Limited has a long operational track record of more than three decades. In addition to this, the key promoter of KCMPL, Mr. Rajendra Prasad R Agarwal, has been in the industry for around four decades and has a strong understanding of local market dynamics. The promoter's background, experience and healthy relations with suppliers and customers will benefit the company going forward, resulting in steady growth in the scale of operations.

- **Above average financial risk profile buoyed by comfortable leverage structure**



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The capital structure of the company remained healthy with its healthy net worth base supported by its low reliance on external debt. The company's adjusted tangible net worth witnessed steady growth on the back of increasing profit and stood at Rs. 48.68 Cr as on March 31, 2024, from Rs.48.60 Cr as on March 31, 2023. The ATNW of the company consisted of unsecured loan from directors and other body corporates of Rs.16.85 Cr which is subordinated to the bank loan and therefore treated as quasi equity. Further, the adjusted gearing of the company stood comfortable at 0.99x as on March 31, 2024, as against 0.78x as on March 31, 2023. The adjusted Total outside Liabilities/Tangible Net Worth (ATOL/TNW) also stood comfortable at 1.64x as on March 31, 2024, as against 1.68x as on March 31, 2023. Moreover, the debt protection metrics of the company stood moderately comfortable marked by Interest Coverage Ratio at 2.28x as on March 31, 2024, and Debt Service Coverage Ratio at 1.37x as on March 31, 2024. However, the total debt/EBITDA stood moderate at 3.43x as on March 31, 2024. Going forward, the financial risk profile of the company will improve with no major debt funded capex plans.

- **Moderate working capital management**

The moderate working capital management of the company is marked by the operating cycle of 78 days as on 31st March 2024. The moderate operating cycle is primarily on account of comfortable inventory days and high debtor days. The debtor period stood high at 101 days as on 31st March 2024 due to the nature of the business. Nevertheless, the inventory levels and raw material holding period stood comfortable at 32 days as on 31st March 2024. Going forward, the working capital management of the company will remain at similar levels as evident from the low inventory level and high debtor level.

Key Rating Weaknesses

- **Modest scale of operation**

The company has a modest scale of operations, the revenue of the company marginally declined by ~1.09% to Rs.248.75 Cr in FY2024 (refers to period April 1st, 2023, to Mar 31, 2024) from Rs.251.49 Cr in FY2023 (refers to period April 1st, 2022, to Mar 31, 2023) on account of decline in cotton prices. Further, the company has achieved Rs.117.60 Cr in 7MFY2025 (refers to period April 1st, 2024, to October 31, 2024) (Provisional). In the medium term, the sustenance of the growth of the revenue and the further sustenance of the profitability margins of the company will be a key rating monitorable.



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- **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. The EBITDA margin of the company increased to 5.67% in FY2024 from 5.45% in FY2023. Further, the PAT margin of the company decreased to 0.89% in FY2024 from 1.09% in FY2023. In the medium term, the sustenance of the growth of the revenue and the further sustenance of the profitability margins of the company will be a key rating monitorable.

- **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](#)

[Policy on default recognition](#)

[Policy on withdrawal of ratings](#)

[Complexity level of rated Instruments/Facilities](#)

Liquidity– Adequate

The company has adequate liquidity position marked by sufficient net cash accruals which stood at Rs.7.34 Cr as on March 31, 2024, as against long term debt repayment of Rs.3.65 Cr over the same period. The current ratio stood comfortable at 1.3x as on March 31, 2024 and the quick ratio also stood comfortable at 1.06x as on March 31, 2024. The cash and bank balances of the company stood at Rs. 1.24 Cr as on March 31, 2024. The average fund-based



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limit utilisation remains moderate at 78.20% over the last 13 months ended October 2024. Going forward, the company is likely to maintain adequate liquidity position supported by steady accruals.

About the Company

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

Financials (Standalone):

(Rs. crore)

| For the year ended/ As on* | 31-03-2023 | 31-03-2024 |
|------------------------------------|-------------------|-------------------|
| | Audited | Audited |
| Total Operating Income | 251.49 | 248.75 |
| EBITDA | 13.71 | 14.11 |
| PAT | 2.74 | 2.22 |
| Total Debt | 37.72 | 48.35 |
| Adjusted Tangible Net Worth | 48.60 | 48.68 |
| EBITDA Margin (%) | 5.45 | 5.67 |
| PAT Margin (%) | 1.09 | 0.89 |
| Overall adjusted Gearing Ratio (x) | 0.78 | 0.99 |
| Interest Coverage (x) | 2.70 | 2.28 |

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:



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| Sl. No. | Name of Instrument / Facilities | Current Rating (Year 2024-25) | | | | Rating History for the past 3 years | | |
|---------|---------------------------------|-------------------------------|--------------------------------|------------------|---|---|---|---|
| | | Type (Long Term/ Short Term) | Amount Outstanding (Rs. Crore) | Rating | | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 |
| | | | | | | August 29, 2023 | - | - |
| 1. | Term Loan | Long Term | 8.80 | IVR BBB-/ Stable | IVR BB+/ Negative ISSUER NOT COOPERATING* | IVR BBB-/ Stable | - | - |
| 2. | WCDL | Long Term | 25.42** | IVR BBB-/ Stable | IVR BB+/ Negative ISSUER NOT COOPERATING* | IVR BBB-/ Stable | - | - |
| 3. | Cash Credit | Long Term | 15.00 | IVR BBB-/ Stable | - | - | - | - |
| 4. | Proposed Bank Guarantee | Short Term | 0.78 | IVR A3 | IVR A4+ ISSUER NOT COOPERATING* | IVR A3 | - | - |

*Issuer did not cooperate; based on best available information

**Cash Credit of Rs. 18.00 crore is a sublimit of WCDL

**Bank Guarantee of Rs.2.00 crore is a sublimit of WCDL

**Letter of Credit of Rs.2.00 crore is a sublimit of WCDL

Analytical Contacts:

| | |
|---|---|
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About Infomerics:

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.



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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 and definition of ratings please visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Facility Details

| Name of Facility/ Security | ISIN | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|----------------------------|------|------------------|------------------|---------------|------------------------------|--------------------------|
| Term Loan -1 | - | - | - | June 2025 | 0.45 | IVR BBB-/Stable |
| Term Loan -2 | - | - | - | November 2023 | 0.37 | IVR BBB-/Stable |
| Term Loan -3 | - | - | - | October 2023 | 0.63 | IVR BBB-/Stable |
| Term Loan -4 | - | - | - | - | - | Withdrawn |
| Term Loan -5 | - | - | - | October 2029 | 7.35 | IVR BBB-/Stable |
| WCDL* | - | - | - | - | 25.42 | IVR BBB-/Stable |
| Cash Credit | - | - | - | - | 15.00 | IVR BBB-/Stable |
| Proposed Bank Guarantee | - | - | - | - | 0.78 | IVR A3 |

*Cash Credit of Rs.18.00 crore is a sublimit of WCDL

*Bank Guarantee of Rs.2.00 crore is a sublimit of WCDL

*Letter of Credit of Rs.2.00 crore is a sublimit of WCDL

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-KumarCotton-dec24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable



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Annexure 4: List of companies considered for consolidated/Combined analysis: 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.

