



Press Release

Kumaragiri Spinnerss Private Limited

October 30, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	176.03	IVR BBB/ Stable (IVR Triple B; with Stable Outlook)	IVR BBB+/ Stable (IVR Triple B Plus; with Stable Outlook)	Downgraded	Simple
Short Term Bank Facilities	0.52	IVR A3+ (IVR A Three Plus)	IVR A2 (IVR A Two)	Downgraded	Simple
Total	176.55	Rupees One Hundred Seventy Six Crore and Fifty Five Lakh Only			

Details of Facilities/Instrument are in Annexure 1

Facility wise lender details are at Annexure 2

Detailed explanation of covenants is at Annexure 3

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has downgraded the long-term rating to IVR BBB with a Stable outlook and short-term rating to IVR A3+ for the bank loan facilities of Kumaragiri Spinnerss Private Limited (KSPL).

The rating continues to draw comfort from the established track record of operations and experienced management, easy availability of raw material and comfortable financial risk profile. However, these strengths are partially offset by decline in debt protection metrics and capital structure, decline in profitability margins and gross cash accruals, working capital intensive nature of operations, susceptibility of profitability to raw material price volatility and Intense competition.

The outlook is 'Stable' on account of improvement in credit profile and improved demand of Indian cotton yarn and fabrics in global markets, which provides revenue visibility in the medium term.

IVR has principally relied on the standalone audited financial results of KSPL upto 31 March 2024 (refers to period April 1st, 2023, to March 31, 2024), 5MFY25 results and projected financials for FY2025, FY2026 and FY2027, and publicly available information/ clarifications provided by the company's management.



Press Release

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 440 crore and improvement in operating profit margins
- Improvement in debt protection metrics
- Improvement in capital structure marked by improvement in overall gearing below 2.20x

Downward Factors

- Significant reduction in the scale of operations and profitability margins
- Deterioration in capital structure marked by moderation in overall gearing or debt protection metrics

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**
The company commenced its operations in 2004 and has a successful track record of around two decades in the existing line of business. Overall activities of KSPL are managed by five directors with Mr. Thottipalayam Thangavell being the Managing Director. He has more than 20 years' experience in the cotton and yarn business. He is ably supported by other four directors namely, Mrs. Sudha Thangavell, Mr. S Nagarajan, Mr. Arunachalam Murthy and Mr. R T Vsihnu Prasad who have effective experience in cotton and yarn business as well as supported by qualified and well experienced management team.
- **Easy availability of raw material:**
The company has easy access to raw materials as its manufacturing plant is located in Erode (Tamil Naidu), which is cotton growing belt of India. Favorable location of the plant also enables the company to save on logistics costs.
- **Comfortable financial risk profile:**
The tangible networth marginally improved to Rs. 77.49 crore in FY2024 from Rs. 75.90 crore in FY2022. The TOI has marginally increased by 5.55% to Rs. 398.96 crore in FY2024 from Rs. 377.99 crore in FY2023. In 6MFY25 company achieved TOI of Rs. ~235 crore.



Press Release

Key Rating Weaknesses

- **Decline in debt protection metrics and capital structure:**
In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) has declined to 1.45x in FY2024 from 2.09x in FY2023. The overall gearing and TOL/TNW declined and remained moderate at 2.76x (FY2023: 2.31x) and 3.16x (FY2023: 2.76x) respectively in FY2024.
- **Decline in profitability margins and gross cash accruals:**
The net profit margins and EBITDA margins have declined to 0.30% and 7.80% respectively in FY2024 from 1.32% and 8.03% respectively in FY2023. Gross cash accruals (GCA) declined to Rs. 12.03 crore in FY2024 from Rs. 16.30 crore in FY2023.
- **Working capital intensive nature of operations:**
KSPL's operations are working capital intensive as the raw material availability is seasonal. During this period the company has to procure raw material required for the entire year. i.e., till next season. The company has large working capital requirements which are reflected in an elongated conversion cycle of 84 days in FY2024 (FY2023: 85 days). The average fund based working capital utilization stood high at ~88.38% for last 12 months ending 31st August 2024.
- **Intense competition:**
The cotton yarn industry is highly commoditized. The high degree of fragmentation and commoditized nature has caused intense competition among cotton processing units. Entry barriers in cotton processing business are low on account of limited capital and technology requirements and low differentiation in end product. This leads to intense competition and limits players' pricing power, resulting in low profitability. Since raw cotton is an agricultural commodity, its availability is limited and primarily depends on the monsoon.
- **Susceptibility of profitability to raw material price volatility:**
The cotton yarn industry's profitability margins are highly correlated with fluctuations in raw cotton prices. The company does not have any long-term contracts with suppliers with regards to either quantity or price. However, it has several years of relationships. The cotton yarn industry is fragmented and there is significant competition among the players in the industry due to which their bargaining power is limited. This restricts the players from fully passing on the input cost increases to customers or retaining any benefits of lower input costs. As a result, the profitability margins of the company are susceptible to the volatility in raw cotton prices. However, due to the prudent cotton procurement skill of its directors, KSPL has been able to contain this volatility in margins in the last two years.



Press Release

Analytical Approach: For arriving at the ratings, IVR has analysed KSPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)
[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)
[Criteria for Assigning Rating Outlook](#)
[Policy on Default Recognition](#)
[Complexity Level of Rated Instruments/Facilities](#)

Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 109.97 crore, as on 31 March 2024. Against a current portion of long-term debt (CPLTD) of Rs 10.16 crore in FY2024, the company had earned a cash accrual of Rs. 12.03 crore in FY2024. The company projected to generate cash accruals of Rs. 20.04 crore in FY2025 against a CPLTD of Rs. 17.79 crore. With adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

Kumaragiri Spinners Private Limited (KSPL) was incorporated in 2004 under the leadership of Mr. Thottipalayam Thangavell who has more than two decades of experience in textile industry. He is ably supported by other experienced directors. The company is engaged in manufacturing of cotton, viscose and blended yarns of 20s-40s count. The manufacturing facility is in Kuttakadu, Sanakari West, Tamil Naidu with an installed capacity of 75,168 spindles. It also has a captive power generation through windmill of 6.70 megawatt (MW) and 13 MW of solar panel which supports around 65%-75% of its power requirements.

Financials (Standalone):

(Rs. crore)		
For the year ended as on	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	377.99	398.96
EBITDA	30.37	31.12
PAT	5.04	1.20
Total Debt	176.95	231.60
Tangible Networth	75.90	77.49
EBITDA Margin (%)	8.03	7.80
PAT Margin (%)	1.30	0.30
Overall Gearing Ratio (x)	2.31	2.76
Interest Service Coverage Ratio (x)	2.09	1.45



Press Release

Status of non-cooperation with previous CRA: The rating is under ISSUER NOT COOPERATING category with India Ratings via press release dated 14th July 2024 due to non-availability of information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (26 Sep 2023)	Date(s) & Rating(s) assigned in 2022-23 (20 Sep 2022)	Date(s) & Rating(s) assigned in 2021-22 (14 Mar 2022)
1.	Fund Based	Long Term	176.03	IVR BBB/Stable	IVR BBB+/Stable	IVR BBB+/Stable	IVR BBB+/Stable
2.	Non-Fund Based	Short Term	0.52	IVR A3+	IVR A2	IVR A2	IVR A2

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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.

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.



Press Release

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. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	77.50	IVR BBB/Stable
Term Loan 1	-	-	Sep 2024	0.18	IVR BBB/Stable
Term Loan 2	-	-	Oct 2024	0.34	IVR BBB/Stable
Term Loan 3	-	-	Aug 2028	7.55	IVR BBB/Stable
Term Loan 4	-	-	Feb 2027	14.79	IVR BBB/Stable
Term Loan 5	-	-	Dec 2029	16.25	IVR BBB/Stable
Term Loan 6	-	-	Mar 2029	7.71	IVR BBB/Stable
Term Loan 7	-	-	Mar 2030	14.33	IVR BBB/Stable



Press Release

Term Loan 8	-	-	Jan 2031	6.53	IVR BBB/Stable
Term Loan 9	-	-	Mar 2032	15.25	IVR BBB/Stable
GECL Term Loan 1	-	-	Nov 2027	11.30	IVR BBB/Stable
GECL Term Loan 2	-	-	Dec 2025	4.30	IVR BBB/Stable
CEL	-	-	-	0.52	IVR A3+

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Kumaraqiri-oct24.pdf>

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

Annexure 4: List of companies considered for consolidated/combined analysis: Nil

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.