Press Release

Kumaragiri Spinnerss Private Limited

March 14, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	134.91	IVR BBB+/ Stable (IVR Triple B Plus; with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	0.90	IVR A2 (IVR A Two)	Assigned	Simple
Total	**135.81**	**Rupees One Hundred Thirty Five Crore and Eighty One Lakh Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Ratings (IVR) has assigned long-term rating of IVR BBB+ with a Stable outlook and short-term rating of IVR A2 for the bank loan facilities of Kumaragiri Spinnerss Private Limited (KSPL).

The rating draws comfort from the established track record of operations and experienced management, easy availability of raw material and KSPL's improved profitability margins, debt protection metrics and financial risk profile during FY21 and 9MFY22. However, these strengths are partially offset by 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 2021, 9MFY22 results and projected financials for FY22. FY23 and FY24, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and profitability margins
- Improvement in debt protection metrics
- Sustenance of the analyzed gearing below 1.20x

Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing

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 experience of more than 20 years 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.

- **Improved debt protection metrics and financial risk profile:**
  In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) improved to 4.57x in FY2021 as compared to 3.22x in FY2020, and the debt service coverage ratio (DSCR) improved to 2.71x in FY2021 as compared to 1.44x in FY2020. The analysed tangible networth improved to Rs. 57.24 crore in FY2021 from Rs. 48.12 crore in FY2020. The total operating income (TOI) improved by ~29.65% to Rs. 278.81 crore in FY2021 from Rs. 215.04 crore in FY2020. In 9MFY22 the company achieved TOI of Rs. 318.44 crore with a PAT of Rs. 11.06 crore

- **Improved profitability margins:**
  The company's operating profit margins and net profit margins improved to 12.76% and 3,24% respectively in FY2021 as compared to 11.34% and 2,24% respectively in FY2020, due to increase in overall operating income.

Key Rating Weaknesses

- **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 93 days in FY2021 (FY2020: 101 days).

- **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.

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)

Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 71.11 crore, as on 31 March 2021. Against a current portion of long-term debt (CPLTD) of Rs 18.30 crore in FY21, the company had a cash accrual of Rs. 27.34 crore in FY21. The company projected to generate cash accruals of Rs. 28.23 crore in FY22 against a CPLTD of Rs. 21.87 crore. Furthermore, the company has got sanction of additional GECL (Guaranteed emergency credit line) loan of Rs. 26.65 crore under schemes of RBI to support Micro, small and medium enterprise (MSME) sector during the covid-19 pandemic. With these additional working capital facilities and adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

Kumaragiri Spinnerss 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 53,664 spindles. It also has a captive power generation through windmill of 6.70 megawatt (MW) and 6 MW of solar panel which supports around 60% of its power requirements.

Financials (Standalone):

(Rs. crore)

For the year ended as on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	215.04	278.81
EBITDA	24.38	35.59
PAT	4.83	9.08
Total Debt	68.67	122.14
Analyzed Tangible Networth	48.12	57.24
EBITDA Margin (%)	11.34	12.76
PAT Margin (%)	2.24	3.24
Overall Gearing Ratio (x)	1.42	2.13

Status of non-cooperation with previous CRA: India Ratings BB/A4+ (ISSUER NOT CCOOPERATING) as on 10th July 2020

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based	Long Term	134.91	IVR BBB+/Stable (Assigned)	-	-	-
2.	Non-Fund Based	Short Term	0.90	IVR A2 (Assigned)	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Shivam Bhasin Tel: (011) 24611910 Email: shivam.bhasin@infomerics.com	Name: Mr. Om Prakash Jain Tel: (011) 24611910 Email: opjain@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com 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: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	42.50	IVR BBB+/Stable
Term Loan	-	-	-	65.75	IVR BBB+/Stable
GECL Term Loan	-	-	-	26.66	IVR BBB+/Stable
Bank Guarantee	-	-	-	0.38	IVR A2
CEL	-	-	-	0.52	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Kumaragiri-Spinnerss-lenders-mar22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/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 Complexity Level of Rated Instruments/Facilities.