



## Press Release

### Kumaragiri Spinnerss Private Limited

**September 20, 2022**

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	149.32	IVR BBB+/ Stable (IVR Triple B Plus; with Stable Outlook)	IVR BBB+/ Stable (IVR Triple B Plus; with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	0.90	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	Reaffirmed	Simple
<b>Total</b>	<b>150.22</b>	<b>Rupees One Hundred Fifty Crore and Twenty Two Lakh Only</b>			

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has reaffirmed long-term rating at IVR BBB+ with a Stable outlook and short-term rating at IVR A2 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, comfortable debt protection metrics and financial risk profile during FY2022. However, these strengths are partially offset by decline in profitability margins, 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 and FY2022 certified provisional results, Q1FY23 results and projected financials for FY23, FY24 and FY25, and publicly available information/ clarifications provided by the company's management.

#### Key Rating Sensitivities:

##### Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 540 crore and profitability margins
- Improvement in debt protection metrics



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- 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.
- **Comfortable debt protection metrics and financial risk profile:**  
In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and debt service coverage ratio (DSCR) stood at 4.73x and 1.67x respectively in FY2022 (Provisional). The analysed tangible networth improved to Rs. 69.07 crore in FY2022 (Provisional) from Rs. 57.40 crore in FY2021. The total operating income (TOI) improved 59.85% to Rs. 445.70 crore in FY2022 (Provisional) from Rs. 278.81 crore in FY2021. In Q1FY23 the company achieved TOI of Rs. 118.53 crore with a PAT of Rs. 3.67 crore.

#### Key Rating Weaknesses

- **Decline profitability margins:**  
The company's operating profit margins and net profit margins declined to 11.74% and 2.83% respectively in FY2022 (Provisional) as compared to 12.76% and 3.24% respectively in FY2021, due to stiff competition.



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- **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 71 days in FY2022 (FY2021: 93 days). The average fund based working capital utilization stood high at ~87% for last 12 months ending 31st July 2022.

- **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 \(Non-Financial Sector\)](#)

[Criteria for Assigning Rating Outlook](#)



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### **Liquidity – Adequate**

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 96.87 crore, as on 31 March 2022. Against a current portion of long-term debt (CPLTD) of Rs 18.30 crore in FY2022 (Provisional), the company had a cash accrual of Rs. 36.63 crore in FY2022 (Provisional). The company projected to generate cash accruals of Rs. 43.88 crore in FY2023 against a CPLTD of Rs. 21.99 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 Nadu with an installed capacity of 53,664 spindles. It also has a captive power generation through windmill of 6.70 megawatt (MW) and 13 MW of solar panel which supports around 60%-70% of its power requirements.

### **Financials (Standalone):**

(Rs. crore)		
For the year ended as on	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	278.81	445.70
EBITDA	35.59	52.32
PAT	9.08	12.67
Total Debt	122.14	138.75
Analyzed Tangible Networth	57.24	68.91
EBITDA Margin (%)	12.76	11.74
PAT Margin (%)	3.24	2.83
Overall Gearing Ratio (x)	2.13	2.01

**Status of non-cooperation with previous CRA:** India Ratings BB/A4+ (ISSUER NOT COOPERATING) as on 28<sup>th</sup> July 2022 and Crisil Ratings BB+ (ISSUER NOT COOPERATING) as on 30<sup>th</sup> March 2022.

**Any other information:** Not Applicable



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### Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (14 Mar 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Fund Based	Long Term	149.32	IVR BBB+/Stable (Reaffirmed)	IVR BBB+/Stable	-	-
2.	Non-Fund Based	Short Term	0.90	IVR A2 (Reaffirmed)	IVR A2	-	-

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### 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](http://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	-	-	-	42.50	IVR BBB+/Stable
Term Loan 1	-	-	Sep 2024	18.06	IVR BBB+/Stable
Term Loan 2	-	-	Aug 2028	11.72	IVR BBB+/Stable
Term Loan 3	-	-	Feb 2027	27.29	IVR BBB+/Stable
Term Loan 4	-	-	Dec 2029	25.00	IVR BBB+/Stable
GECL Term Loan 1	-	-	Aug 2028	11.05	IVR BBB+/Stable
GECL Term Loan 2	-	-	Dec 2025	13.70	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/Len-Kumaragiri-Spinners-sep22.pdf>



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**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](#).