



Press Release

Kumaragiri Spinnerss Private Limited

September 26, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	209.23	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	12.52	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	221.75	Rupees Two Hundred Twenty One Crore and Seventy Five Lakh Only			

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 and comfortable financial risk profile during FY2023. However, these strengths are partially offset by decline in total operating income and 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 2023, Q1FY24 results and projected financials for FY24, FY25 and FY26, 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. 550 crore and improvement in operating profit margins
- Improvement in debt protection metrics



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- Improvement in capital structure marked by improvement in overall gearing below 1.80x

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 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 financial risk profile:**
In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and debt service coverage ratio (DSCR) stood at 2.09x and 1.04x respectively in FY2023. The tangible networth improved to Rs. 75.90 crore in FY2023 from Rs. 68.43 crore in FY2022.

Key Rating Weaknesses

- **Decline total operating income and profitability margins:**
The total operating income (TOI) declined by 13.32% to Rs. 386.33 crore in FY2023 from Rs. 445.70 crore in FY2022 mainly due to decline in selling prices of products as well as slowdown in textile industry. The company's operating profit margins and net profit margins declined to 7.86% and 1.30% respectively in FY2023 as compared to 11.93% and 2.77% respectively in FY2022, due to stiff competition. However, the profitability



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position has started improving in current financial year as in Q1FY24 the company has achieved operating profit margin of ~11% and PAT margin of ~4.90%.

- **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 76 days in FY2023 (FY2022: 64 days). The average fund based working capital utilization stood high at ~92.74% for last 12 months ending 31st July 2023.

- **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](#)

Liquidity – Adequate



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The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 100.05 crore, as on 31 March 2023. Against a current portion of long-term debt (CPLTD) of Rs 10.99 crore in FY2023, the company had earned a cash accrual of Rs. 16.31 crore in FY2023. The company projected to generate cash accruals of Rs. 34.65 crore in FY2024 against a CPLTD of Rs. 30.16 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 65,184 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):

For the year ended as on	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	445.70	386.33
EBITDA	53.17	30.37
PAT	12.40	5.04
Total Debt	138.74	176.95
Tangible Networth	68.30	75.90
EBITDA Margin (%)	11.93	7.86
PAT Margin (%)	2.77	1.30
Overall Gearing Ratio (x)	2.04	2.34

Status of non-cooperation with previous CRA: The rating is under ISSUER NOT COOPERATING category with India Ratings via press release dated 24th July 2023.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2023-24)	Rating History for the past 3 years
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		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (20 Sep 2022)	Date(s) & Rating(s) assigned in 2021-22 (14 Mar 2022)	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	209.23	IVR BBB+/Stable (Reaffirmed)	IVR BBB+/Stable	IVR BBB+/Stable	-
2.	Non-Fund Based	Short Term	12.52	IVR A2 (Reaffirmed)	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.

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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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: 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	-	-	Mar 2024	6.00	IVR BBB+/Stable
Term Loan 2	-	-	Sep 2024	3.49	IVR BBB+/Stable
Term Loan 3	-	-	Aug 2028	9.63	IVR BBB+/Stable
Term Loan 4	-	-	Feb 2027	20.79	IVR BBB+/Stable
Term Loan 5	-	-	Dec 2029	21.66	IVR BBB+/Stable
Term Loan 6	-	-	Mar 2029	9.64	IVR BBB+/Stable
Term Loan 7	-	-	Mar 2030	19.78	IVR BBB+/Stable
Term Loan 8	-	-	Mar 2032	19.50	IVR BBB+/Stable
GECL Term Loan 1	-	-	Nov 2027	13.70	IVR BBB+/Stable
GECL Term Loan 2	-	-	Dec 2025	7.54	IVR BBB+/Stable
SLC	-	-	-	7.00	IVR A2



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CEL	-	-	-	5.52	IVR A2
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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-sep23.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](#).