

Press Release

K M S Spinners

June 21, 2019



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.9.36 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Upgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) to the Rs.8.25 crore and assigned long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs.1.11 Crore bank facilities of KMS SPINNERS (KMSS). The outlook is '**Stable**'.

The rating upgrade takes into account the growth in revenues, improvement in financial risk profile and efficient working capital management. However, the rating is constrained by modest scale of operations with volatile profitability margins and presence in highly competitive and fragmented industry.

KMSS, established in 2015 is a Coimbatore, Tamilnadu based firm engaged in manufacture of Cotton Yarn. The firm's manufacturing facilities are located at Vellakovil, Tirupur District, Tamilnadu; the overall operations are managed by the partners Mr. R. Sakthivel, Mrs. S. Sathiyabama, Mr. S. Sedhuram, Mr. P. Kumaravel, Mrs. K. Vennila, and Mr. M. Mani.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of KMSS to arrive at this rating.

Key Rating Drivers

Strengths

Experienced Management:

KMSS's promoters possess more than two decades of experience in the cotton industry; all the partners are actively involved in the day to day operations of the business and established longstanding relationships with suppliers and customers which helped in building its volumes; the operations have stabilized and its revenues have improved to Rs.25.58 crores in FY2019 (provisional) from Rs.16.27 crores in FY2018. Acuite believes that the firm is expected to benefit from the promoters' established presence and the relationship with the stakeholders in improving its business risk profile over the medium term.

Moderate financial profile:

KMSS's financial risk profile is marked by moderate gearing and TOL/TNW and moderate debt protection metrics. The net worth is modest at Rs.5.02 crore in FY2019 (Provisional) as against Rs.3.82 crore in FY2018 improved due to increase in share capital. Gearing and TOL/TNW are high at 1.89 and 2.28 times as on March 31, 2019 (provisional), an improvement from 2.28 and 2.57 times as on March, 2017. Its debt protection metrics are moderate reflected by interest coverage ratio and net cash accruals to total debt of 2.53 and 0.18 times in FY2019. The firm generated annual cash accruals at around Rs.1.68 crore in FY2019 (Provisional). The cash accruals of the firm are estimated to remain around Rs.1.70-2.25 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 1.00-1.20 Crore leaving marginal flexibility. Acuite believes that with modest accruals to repayment obligations and working capital intensive operations and no significant capex plans, the financial risk profile is expected to improve marginally over the medium term.

Efficient working capital management

KMSS's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 60 days, and efficient collection of trade receivables. The inventory days of two months are majorly driven by seasonality of the cotton and suppliers in and around the factory. Also, KMSS extends credit of about two months to its clientele. Modest network and seasonal nature lead to high reliance on bank lines with average utilisation at about 99 percent over six months

through March 2019. Acuite believes that KMSS's operations continue to be efficiently managed as supported by efficient collection mechanism and in time inventory levels. However any significant increase in the working capital will have a bearing on the liquidity profile of the firm.

Weaknesses

Modest scale of operations, though improving

KMSS's revenue has shown Y-O-Y growth over the last 3 years ending March, 2019 from Rs.2.70 crore in FY16 to Rs.25.59 crore in FY19(Provisional). However the revenues are at modest levels within the spinning industry. The revenue growth is driven by recently started operations in FY2017, increased capacity utilisation and continuous customer addition.

Volatile profitability

Operating margins of cotton spinners are susceptible to changes in cotton prices, which is highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and government regulations on changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. Operating margins of KMSS are so volatile with margins dropping to 10.85 per cent in FY2019 from 15.42 per cent in FY2018. Acuite believes that sustenance of the margins is key rating sensitivity factor over the medium term.

Highly competitive and fragmented industry

KMSS operates in textile spinning industry which is highly fragmented. The Indian textile industry is highly competitive and marked by presence of large number of unorganised and organised players. Further, industry has low entry barriers increasing competition for players such as KMSS, thereby putting pressure on bargaining power with customers.

Liquidity:

The firm has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations, however constrained by high bank limit utilisation. Its cash accruals are modest at Rs.1.68 crore in FY2019 (Provisionals). The cash accruals are estimated to remain around Rs.1.70-2.25 crore during 2019-21 while its repayment obligation are estimated at around Rs1.00-1.20 Crore. The KMSS's operations are moderate working capital intensive with GCA of 81 days in FY2019 and 94 Days in FY2018; lead to high utilisation of its working capital limits at about 99 percent over the past six months ended April 2019. The current ratio of the KMSS stands less than 1.00 time as of March 31, 2019 (Provisionals). The firm is likely to incur regular capex about Rs. 0.25 crore over the medium which is likely to be funded by equity. Acuite believes that the liquidity of the KMSS continues to be at similar levels owing to modest scale of revenues and accruals.

Outlook: Stable

Acuite believes that KMSS will continue to maintain 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' if the firm reports substantial increase in operating revenues while sustaining its margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital cycle or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY2019 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	25.58	16.27	2.70
EBITDA	Rs. Cr.	25.59	16.28	2.70
PAT	Rs. Cr.	2.78	2.51	0.20
EBITDA Margin	(%)	10.85	15.42	7.59
PAT Margin	(%)	0.94	0.68	(28.46)
ROCE	(%)	9.91	9.69	(7.58)
Total Debt/Tangible Net Worth	Times	1.89	2.28	2.18
PBDIT/Interest	Times	2.53	2.40	0.64
Total Debt/PBDIT	Times	3.41	3.46	35.49
Gross Current Assets (Days)	Days	81	94	290

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Mar-2019	Cash Credit	Long Term	2.25	ACUITE B+ (Issuer not cooperating)*
	Term Loan	Long Term	6.00	ACUITE B+ (Issuer not cooperating)*
27-Dec-2017	Cash Credit	Long Term	2.25	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	6.00	ACUITE B / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE B+ / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.86	ACUITE B+ / Stable (Upgraded from ACUITE /Stable)

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About Acuité Ratings & Research:

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