

Press Release

Kumaragiri Spinnerss Private Limited

August 31, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.82.00 Cr.
Long Term Rating	ACUITE BBB/Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs.82.00 crore bank facilities of Kumaragiri Spinnerss Private Limited (KSPL). The outlook is '**Stable**'.

Kumaragiri Spinnerss Private Limited (KSPL) incorporated in 2004 is primarily engaged in manufacturing of cotton, polyester, viscose and blended yarns. KSPL's manufacturing facility is located in Pallipalayam (Tamil Nadu). It has moderate spindle capacity of 18,144 spindles, and about 15,360 vortex spindles aggregating to 33,504 spindles. KSPL produces blended yarn of counts ranging from 20s to 40s. KSPL has wind turbine generators with installed capacity of 6.7 mega-watts (MW) in Tamil Nadu which supports about 80 percent of its power requirement.

Analytical Approach

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

Key Rating Drivers

Strengths:

Established track record of the operations with experienced management:

KSPL was established in 2004 by Mr. Thottipalayam Rajavelu Thangavell, Mr. S Nagarajan, Mr. Arunachalam Murthy and Mrs. Sudha Thangavell as Directors. All the Directors are involved in the day-to-day operations of the business; besides, KSPL has well qualified and experienced second line personnel to manage the operations. KSPL's management is aggressive in its business plans as they ventured into setting up of vortex spindles rather traditional spinning lines as part of their expansion plan during FY2015. Vortex spindles are more profitable in terms of better price for the high-quality yarn, highly efficient ensuring minimal waste of material and the industry is expected to move over a period to this new technology.

Secondly, the management has taken an aggressive step by going in for additional wind mill units of 4 MW in Q4FY2018, to make self-reliant and self-sustained energy with an aggregate capacity of 6.7 MW. This supports in about 80 percent of KSPL's power requirement, besides saving power cost of about Rs.5.00 – 6.00 crore per annum as differential cost between own generation and outright purchase from State Discoms. The bold step in FY2018 is expected to benefit KSPL in enjoying the banking facility with State Discoms and use it whenever as required, which is not allowed for any wind mills setup on or after April 01, 2018. This is expected to benefit over the medium term in improving its profitability.

Presence in value-added yarn segment:

Over the years, KSPL has increased its focus on value-added products. Further, the product range is wide, it manufactures around 13 varieties of yarn including 100 percent polyester, viscose, cotton, bamboo viscose as well as blended yarns of various combinations of polyester-viscose, polyester-cotton, and polyester-viscose-cotton among others. Flexibility to switch between cotton and

polyester-viscose yarn provides operational effectiveness. It operates in the range count of 20s to 40s. Moderate spindle capacity with blended yarn operations supported in moderate revenues of about Rs.190.00 crore in FY2018; KSPL has reported a compound annual growth rate (CAGR) of about 18 percent over the past three years through FY2018. The growth is attributed to improving margins and realisations from its vortex yarn and blended yarn operations. Its margins have improved from 13.22 percent in FY2017 to about 14.7 percent in FY2018, though it is a decline from 17.8 percent in FY2016. Margins are expected to improve to about 16-17 percent over the medium term attributed to savings in power cost and high realisations from vortex yarn.

Average financial risk profile:

KSPL's financial risk profile is marked by moderate net worth, moderate debt protection metrics though impacted by high gearing (debt-to-equity) and total outside liabilities to total net worth (TOL/TNW). KSPL's net worth is moderate at Rs.32.25 crore as on March 31, 2018 as compared to Rs.26.74 crore as on March 31, 2017, owing to accretion to reserves. However, the company has debt-funded capital expenditure (capex) of about Rs.60.00 crore over the past three years ended FY2018. This includes moderate capex of Rs.26.30 crore, funded out of term loan of Rs.19.73 crore during Feb-March 2018 for setting up of 4 MW of wind mill with outstanding term debt of about Rs.42 crore; and working capital debt of Rs.30.00 crore aggregating to Rs.81.53 crore as on March 31, 2018 has resulted in high gearing of about 2.53 times in FY2018 against 2.29 times in FY2017. The modest deterioration is due to healthy PAT of about Rs.5.30 crore in FY2018.

TOL/TNW is high at 3.04 times in FY2018. KSPL's debt protection metrics are moderate with interest coverage ratio (ICR) and net cash accrual to total debt (NCA/TD) ratios at 3.82 times and 0.23 times respectively in FY2018. Acuite believes that the gearing levels are expected to improve significantly to about 1.5 times over the medium term while other ratios may improve to comfortable levels majorly aided by savings in power costs and moderate operating margins from core operations.

Weaknesses:

Working capital-intensive operations:

KSPL's operations are moderately capital intensive with Gross Current Assets (GCA) of about 136 days in FY2018. KSPL's earnings being utilised towards capital expenditure and repayment of long-term debt, the utilisation of working-capital debt levels have remained high at about 92 percent for past 12 months through July 2018. It maintains moderate inventory of about 50 days, and receivables of 70-80 days. Going forward, with no major capex plans in place, with healthy net cash accruals of Rs.20.00-25.00 crore against repayment obligations of about Rs.9.00 crore, the reliance on working capital debt is expected to be moderate and Acuite believes that the working capital operations continues to be at similar levels.

Fluctuating operating margins:

KSPL's operating margins are volatile; it moved in the range of 17.70 – 13.20 percent over the last three years through FY2018. The volatility in the profitability is primarily attributed to cotton price movement which constitutes about 70-75 percent of sales value. Raw cotton prices are highly volatile in nature and depends largely on factors like area under cultivation, monsoon, crop yield, international demand-supply and pricing and inventory carry forward of the previous year. Further, KSPL faces competitive pressures from other players in the industry, and its commoditised product. Acuite believes that KSPL's EBITDA margins would remain susceptible to raw material price volatility, though insulated partly by the management's conservative inventory policy and long track record of operations.

Outlook: Stable

Acuite believes that KSPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	191.29	180.76	137.09
EBITDA	Rs. Cr.	28.15	23.90	24.36
PAT	Rs. Cr.	5.33	1.95	1.23
EBITDA Margin	(%)	14.72	13.22	17.77
PAT Margin	(%)	2.79	1.08	0.90
ROCE	(%)	15.39	12.06	20.40
Total Debt/Tangible Net Worth	Times	2.53	2.29	2.63
PBDIT/Interest	Times	3.82	3.10	3.62
Total Debt/PBDIT	Times	2.85	2.51	2.52
Gross Current Assets (Days)	Days	136	115	130

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	30.00	ACUITE BBB/ Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	49.15	ACUITE BBB/ Stable (Assigned)
Proposed Bank Loan facility	Not Applicable	Not Applicable	Not Applicable	2.47	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE A2 (Assigned)

Contacts

Analytical	Rating Desk
<p>Sri Hari Adari Head - Rating Operations Tel: +91 40-4027 4590 srihari.adari@acuited.in</p> <p>Bhavani Sankar Oruganti Sr. Rating Analyst - Rating Operations Tel: +91 40-4005 5452 bhavanisankar.oruganti@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuited.in</p>

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