

Press Release

Kumaragiri Spinnerss Private Limited

January 19, 2021

Rating Withdrawn



Total Bank Facilities Rated*	Rs.116.00 Cr.
Long Term Rating	ACUITE BBB (Withdrawn)
Short Term Rating	ACUITE A2 (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.116.00 Cr bank facilities of Kumaragiri Spinnerss Private Limited (KSPL). The rating is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the company and no objection certificate received from the banker.

About the company

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 a 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 an installed capacity of 6.7 mega-watts (MW) in Tamil Nadu which supports about 60 percent of its power requirement. KSPL is promoted by Mr. Thottipalayam Rajavelu Thangavell who has more than a decade of experience in the textile industry.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of KSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters and established track record of operations**

KSPL was incorporated 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. Acuité believes that the industry experience and domain knowledge of the management and long standing relationship with its clientele are expected to support in improving its business risk profile further over the medium term.

- **Presence in value-added yarn segment; Moderate yet improving scale of operations**

Over the years, KSPL has increased its focus on value-added products. The company has wide product range of 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 total operating income of about Rs.215.05 Cr in FY2020; KSPL has reported a compound annual growth rate (CAGR) of about 6 percent over the past three years through FY2020. Despite substantial fall in the average realizations of both the blended yarn as well fabrics, KSPL has managed to show marginal growth of 3.5 percent on Y-o-Y basis in its total operating income. This is on account of higher production of yarn and sale of fabrics. The company almost peaked its capacity utilization levels at 99 percent in FY2020. Acuité believes that KSPL's scale will keep improving over the medium term backed by incremental output from on-going capacity expansion and stability in realisations.

- **Moderate financial risk profile**

KSPL's is moderate marked by moderate capital structure and debt protection metrics. Net worth is moderate at Rs.47.45 Cr as on March 31, 2020 vis-à-vis Rs.40.57 Cr as on March 31, 2019; improved owing to accretion to reserves. It's gearing (debt-equity) is moderate at 1.46 times as on March 31, 2020 as against 1.80 times as on March 31, 2019. The total outside liabilities to total net worth (TOL/TNW) stood moderate at 1.93 times as on March 31, 2020 as against 2.20 times as on March 31, 2019. KSPL is undergoing a large capital expenditure about Rs.55.00 Cr, funded out of term loan of Rs.38.50 Cr and rest through internal accruals and unsecured loans. The capex is for enhancing the processing capacity from 33504 spindles to 53,664 spindles. KSPL reported cash accruals of Rs.16.10 in FY2020 against its repayment obligations of Rs.8.88 Cr. Despite the company's plans to incur capex going forward, an expectation of improved cash accruals is expected to help the company in maintaining a moderate financial risk profile over the medium term. Its debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) are comfortable at 3.12 times and 0.23 times in FY2020 vis-à-vis 4.21 times and 0.30 times for FY2019. Acuité believes that the company will maintain its financial risk profile on account of stable operating matrices and no additional debt funded capex plans over the medium term.

Weaknesses

- **Intensive working capital operations**

KSPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 146 days as on March 31, 2020 as against 138 days as on March 31, 2019; GCA is owing to moderate inventory and debtor levels of 48 and 95 days in FY2020 vis-à-vis 57 days and 81 days as on previous year ending, respectively. The payable terms stood at 45 days as on March 31, 2020 against 32 days against previous year end. This resulted in utilisation of its bank lines at about 65 per cent over last 12 months through December 2020. Acuité expects the operations of the company to remain working capital intensive on account of the moderate inventory levels maintained by the company and extended credit period offered to its customers.

- **Susceptible to changes in input prices and high competition**

The profitability is susceptible to changes in the prices of the raw material, i.e. viscose and cotton fibre. The prices of viscose yarn are influenced by movement in prices of its substitutes i.e. cotton and polyester staple fibres. The prices of cotton are highly dependent on agro-climatic conditions. Besides, cotton prices are fixed by the government through Minimum Support Price (MSP). The prices of polyester yarn are linked to crude oil prices. However, the purchase price depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. The prices of the main raw material, i.e. viscose fibre are relatively stable as compared to cotton prices. However, KSPL is exposed to high supplier concentration risk as Grasim Industries Limited is the only supplier of viscose fibre in the country. The high supplier concentration limits its bargaining power with suppliers and high dependence for raw material. Acuité believes that KSPL should be able to maintain its operating profitability around existing levels, notwithstanding the volatility in prices of its key inputs on the back of its established position in the domestic market. Further, the company is exposed to intense competition in the highly fragmented cotton industry. The company also faces stiff competition from organised and unorganised players in the domestic market and also from other nations that offer lower production costs, ease of doing business and cheap labour.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Adequate

KSPL's liquidity is adequate marked by adequate cash accruals to its debt obligations. It reported cash accruals of Rs.16.10 Cr in FY2020 against its repayment obligation of Rs.8.88 Cr. Despite the company's plans to incur capex going forward, an expectation of improved cash accruals is expected to help the company in maintaining a moderate financial risk profile over the medium term. Comfortable cushion in its accruals and intensive working capital operations reflected by its gross current asset (GCA) days of 146 in FY 2020 lead to utilisation of its limits at about 65 percent during the last 12 months period ended December 2020. The current

ratio of KSPL is comfortable at 1.57 times as on March 31, 2020. Acuité believes that liquidity profile of KSPL will continue to be adequate on account of comfortable cash accruals and moderate working capital management.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	215.05	207.78
PAT	Rs. Cr.	4.83	8.22
PAT Margin	(%)	2.24	3.95
Total Debt/Tangible Net Worth	Times	1.46	1.80
PBDIT/Interest	Times	3.12	4.21

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

None

Any Material Covenants

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-November-2019	Cash Credit	Long Term	37.50 (Enhanced from Rs.30.00 Cr.)	ACUITE BBB/Stable (Reaffirmed)
	Term Loans	Long Term	38.80 (Revised from Rs.49.15 Cr.)	ACUITE BBB/Stable (Reaffirmed)
	Term Loans	Long Term	38.50	ACUITE BBB/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.82 (Revised from Rs.2.47 Cr.)	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.38	ACUITE A2 (Reaffirmed)
31-August-2018	Cash Credit	Long Term	30.00	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	49.15	ACUITE BBB/Stable (Assigned)
	Proposed Bank Facility	Long Term	2.47	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	0.38	ACUITE A2 (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	37.50	ACUITE BBB (Withdrawn)
Term Loan I	29/10/2015	10.20	30/09/2024	12.33	ACUITE BBB (Withdrawn)
Term Loan II	10/29/2015	10.20	30/09/2024	7.34	ACUITE BBB (Withdrawn)
Term Loan III	28/04/2017	10.20	30/09/2022	2.20	ACUITE BBB (Withdrawn)
Term Loan IV	30/04/2018	10.20	30/09/2024	13.52	ACUITE BBB (Withdrawn)
Term Loan V	31/10/2020	10.20	28/02/2027	38.50	ACUITE BBB (Withdrawn)
Term Loan VI	31/10/2020	7.75	31/03/2022	3.00	ACUITE BBB (Withdrawn)
Proposed Long Term Bank Loan facility	Not Applicable	Not Applicable	Not Applicable	1.23	ACUITE BBB (Withdrawn)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE A2 (Withdrawn)

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About Acuité Ratings & Research:

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