

## Press Release

**Bhuvaneswari Cotspin India Private Limited**

**July 13, 2022**



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.65	-	ACUITE A3+   Reaffirmed
Bank Loan Ratings	61.35	ACUITE BBB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	62.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.62.00 Cr bank facilities of Bhuvaneswari Cotspin India Private Limited (BCPL). The outlook is '**Stable**'.

The rating reaffirmation takes into account its long track record of operations, experienced management, above-average financial risk profile and adequate liquidity position. The rating, however, remains constrained on account of moderate working capital intensive operations, highly fragmented textile industry and volatility of raw materials prices.

### About the Company

BCPL is a Tamil Nadu based private limited company incorporated in 2003. The company is engaged in manufacturing of cotton and blended yarn and fabric. The company is promoted by Mr. Loganathan. The company is also supported by second generation, Mr. Paramesh Kumar and Mr. Subramaniam. BCPL caters to various segments of the textile industry.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- **Established track record and experienced promoters**

BCPL has established track record of over a decade since 2003. The company is promoted by Mr. Loganathan and his sons Mr. Paramesh Kumar and Mr. Subramaniam. The company promoters have over a decade experience in the industry. BCPL has been able to establish longstanding relationship with existing customers and suppliers through this company and its other group companies such as Parvathy Dyeing and Bhuvaneswari

Tex. Their established presence in textile industry has helped the company to develop healthy relationship with its customers in getting recurring orders and regular flow of raw materials at better price from its suppliers. Acuité believes that BCPL will continue to benefit from its experienced management and established relationships with customers and suppliers.

- **Significant improvement in FY2022; driven by higher realisations**

The revenue of the company stood at Rs.355.81 Cr in FY2022(Prov) registering a healthy growth of ~64 percent compared to revenue of Rs.216.80 Cr in FY2021 despite being a covid year. The increase in revenue in FY2022 is majorly on account of healthy demand. Profitability margin has marginally decreased i.e. EBITDA margin from 11.32 percent in FY2021 to 9.31 percent in FY2022(Prov), the deterioration in the EBITDA margins is on account of increase in raw material prices, Whereas, Net Profit margin has seen an increased trend from 3.89 percent in FY2021 to 4.19 percent in FY2022(Prov). The main reason for increasing the revenue in FY2022 is due to higher yarn realisations. and BCPL holding cotton inventory at lower prices. In FY2022, BCPL has utilized 85 percent of the capacity and they are expected to utilize 90 to 92 percent of capacity in forthcoming years with minimal routine capex in place.

- **Above-average financial risk profile**

The financial risk profile of the company has remained above-average with moderate capital structure and debt protection metrics. The net worth of the company stood at Rs.73.25 Cr and Rs.63.24 Cr as on March 31, 2022 and 2021 respectively. The gearing of the company has been improving since last three years. It stood at 0.8 times as on March 31, 2022 as against 1.05 times as on March 31, 2021. BCPL'S debt protection metrics are moderate marked by- Interest coverage ratio and debt service coverage ratio stood at 5.79 times and 2.12 times as on March 31, 2022 respectively as against 4.30 times and 1.44 times as on March 31, 2021 respectively. TOL/TNW stood at 1.31 times and 1.40 times as on March 31, 2022 and 2021 respectively. The debt to EBITDA of the company stood at 1.77 times as on 31 March, 2022 as against 2.69 times as on 31st March, 2021. Acuité believes that the financial risk profile of BCPL is expected to further improve on account of improvement in profitability and absence of any major debt-funded capex over the medium term.

## **Weaknesses**

- **Moderate working capital intensive nature of operations**

The working capital management of the company remained efficient with moderate GCA days at 125 days as on March 31, 2022 as against 188 days as on March 31, 2021. Inventory days stood at 46 days as on March 31, 2022 as against 78 days as on 31 March, 2021. Subsequently, the payable period stood at 56 days as on March 31, 2022 as against 41 days as on March 31, 2021 respectively. The debtor day stood at 78 days as on March 31, 2022 as against 92 days as on March 31, 2021. Further, the average bank limit utilization in the last six months ended June, 22 remained at ~81 percent for fund based. Acuité believes that efficient management of its working capital cycle will remain crucial to the company.

- **Highly fragmented textile industry and volatility of raw materials prices**

The Indian textile industry is highly fragmented and competitive marked by presence of large number of organised and unorganised players. This restricts pricing flexibility and bargaining power with its customers. The margins are fluctuating due to volatility in pricing of raw materials i.e. polyester which is dependent on crude oil prices. However, the company's long established presence in the industry and its ability to pass on volatility in raw material to its customers reduces the risk to a certain extent. Acuité believes that BCPL 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 market.

## Rating Sensitivities

### Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

### Negative

- Any large debt-funded capital expenditure, which may adversely impact its capital structure and liquidity
- Any further deterioration in working capital management leading to deterioration in financials risk profile

## Material covenants

None

## Liquidity Position: Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.25.91 Cr in FY2022 as against the repayment of Rs.1.60 Cr for the same period and expected to generate cash accruals in the range of Rs.28-36 Cr. against repayment obligations of Rs.4- 5 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.8 Cr as on March 31, 2022. The current ratio of the company stood at 1.53 times as on 31 March, 2022. Further, the average bank limit utilization in the last twelve months ended May, 22 remained at ~81 percent for fund based. Acuité believes that BCPL's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

## Outlook: Stable

Acuité believes BCPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' incase the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	355.81	216.80
PAT	Rs. Cr.	14.91	8.43
PAT Margin	(%)	4.19	3.89
Total Debt/Tangible Net Worth	Times	0.80	1.05
PBDIT/Interest	Times	5.79	4.30

## 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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 May 2021	Proposed Bank Facility	Long Term	4.05	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Secured Overdraft	Long Term	13.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	11.70	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	0.65	ACUITE A3+ (Upgraded from ACUITE A3)
	Working Capital Term Loan	Long Term	7.50	ACUITE BBB   Stable (Assigned)
	Term Loan	Long Term	3.75	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	17.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	4.35	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
19 Mar 2020	Cash Credit	Long Term	22.00	ACUITE BBB-   Stable (Reaffirmed)
	Secured Overdraft	Long Term	18.00	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	13.00	ACUITE BBB-   Stable (Reaffirmed)
	Bank Guarantee	Long Term	5.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	12.00	ACUITE BBB-   Stable (Reaffirmed)
10 Jan 2019	Secured Overdraft	Long Term	18.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE A3+   Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB   Stable   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.05	ACUITE BBB   Stable   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Term Loan	01-07-2016	11.65	30-06-2022	3.75	ACUITE BBB   Stable   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Term Loan	01-03-2019	10.5	28-02-2026	11.70	ACUITE BBB   Stable   Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	01-09-2016	10.80	31-08-2023	4.35	ACUITE BBB   Stable   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Working Capital Term Loan	03-02-2021	8.50	31-05-2024	7.50	ACUITE BBB   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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