Press Release

Kayaar Exports Private Limited

February 07, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BBB+ | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	30.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB+' (read as ACUITE t riple B plus)** on the Rs.30.00 Cr bank facilities of Kayaar Exports Private Limited (KEPL). The outlook is **'Stable'.**

The assigned rating considers KEPL's long standing presence over two decades and extensive experience of its promoters in the spinning industry, strong relationships with its suppliers and customers. The operating performance of KEPL in FY2021 and H1 FY2022 improved on the back of demand recovery in H2FY2021, which resulted in an increase in unit realisations, supported by favourable demand conditions in its key domestic market led to improvement in operating profit margin. With expected steady growth in volumes and better price realisations, operating performance of KEPL is expected to remain stable in the coming quarters. The ratings continue to favourably factor in the KEPL's healthy financial profile; characterised by its conservative capital structure and robust coverage metrics and adequate liquidity position. The ratings albeit is constrained by its modest size of operations, intense competition in the industry and vulnerability of its margins to fluctuating raw material and yarn prices.

About the Company

Incorporated in 1991, KEPL is a family-owned integrated business engaged in manufacturing of cotton yarn. The company's manufacturing facility is located at Kovilpatti, near Madurai (Tamil Nadu). The company manufactures cotton yarn in the count range of 60s to 70s and it has the capacity to spin combed yarn with counts ranging from 20s to 100s. KEPL has an installed Spinning capacity of 50928 spindles. *KEPL is promoted by* Ramasamy Arunachalam, Ramasamy Krishnamoorthy, and Ramasamy Chennammal.

Analytical Approach

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

Key Rating Drivers

Strengths

Long Operational Track Record; Experienced Management

KEPL has an operating record of two decades in the manufacturing of cotton yarns. KEPL operates with 50,928 spindles capacity. The company's promoters have more than two and half decades of experience in the combed cotton yarn manufacturing business, leading to established relationships with customers and suppliers for repeated business. Acuité believes that KEPL will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

Improvement of EBITDA Margin in FY21

The KEPL's scale of operations has remained modest, with the revenues ranging between Rs 100-115 Cr over the past five fiscals. In FY2021, KEPL's revenue decline to Rs.103.26 Cr (FY20: Rs.113.31 Cr) due to fall in the sales volume due to COVID-19-led operational disruptions during Q1FY2021. The revenue during 9MFY2022 was around Rs.120 Cr. The EBITDA margins of the company improved to 19.31 per cent in FY2021 against 13.60 percent in FY2020. The improvement is attributable to favorable revenue mix and a reduction in the percentage of raw material consumed to 54% in FY21 (FY20: 62.5%) and a rise in the realisation per unit. The PAT margins in FY2021 improved on account of improvement in the operating margins and lower interest expense. The improvement in profitability levels has led to improvement in the debt protection metrics. Acuité believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

Healthy financial risk profile

The financial risk profile continues to remain healthy marked by robust capital structure and robust debt protection measures. The Tangible net worth stood at Rs. 86.58 Cr as on 31 March, 2021 as against Rs. 75.19 Cr as on 31 March, 2020. The gearing (debt-equity) stood miniscule at 0.01 times as on 31 March, 2021 as against 0.11 times as on 31 March, 2020. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.11 times as on 31 March 2021 as against 0.14 times as on 31 March, 2020. Further, KEPL's strong operating profitability has aided in robust debt protection metrics marked by interest coverage and Net cash accruals to total debt (NCA/TD) of 114.09 times and 31.27 times as on March 31, 2021 against 75.90 times and 1.88 times as on previous year end. Acuité believes that KEPL continue to maintain a comfortable capital structure and healthy debt service indicators in the medium term, supported by healthy accrual, nil long-term debt, and adequate liquidity with no significant debt-funded capital expenditure plans in near future.

Weaknesses

Moderately intensive working capital cycle

KEPL's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 263 days in FY2021 as compared to 199 days in FY2020. The GCA days are mainly dominated by inventory holding period of 169 days in FY2021 as against 167 days in FY2020. The collection period was at 45 days in FY2021 as against 10 days in FY2020. Fund-based working capital utilisation was minuscule; it has undrawn bank lines (Rs.30 Cr as of Dec 2021).Acuité believes that the efficient management of its working capital cycle will remain crucial to the company

Susceptible to volatility in raw material prices

KEPL's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic cotton. The main raw material purchased by the company is cotton. Cotton being an agricultural commodity by nature, the margins are susceptible to changes in cotton prices. Cotton availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation, which limits bargaining power with the suppliers as well. However, the company has been able to maintain its operating margins. Acuité believes that KEPL 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 markets.

ESG Factors Relevant for Rating

Not applicable

Rating Sensitivities

Positive

Significant improvement in the scale of operations and Profitability
Significant improvement in Gross current assets (GCA) days

Negative

Significant stretch in its working capital cycle
Any large unanticipated debt-funded capital expenditure leading to a moderation in liquidity

Material covenants

None

Liquidity: Strong

KEPL has strong liquidity, marked by healthy cash accrual against no repayment obligations and non-utilisation of the fund based working capital limits. KEPL is expected to generate annual cash accrual in excess of Rs.25-30 Cr against no maturing repayment obligations. The fund based working capital limits have been hardly utilised over the last 12 months ended December 2021. Liquidity is further supported by healthy cash and bank balances of over Rs.19 Cr, as on March 31, 2021. Surplus accruals are likely to be deployed for funding the incremental working capital requirements and timely collection of receivables resulting in further reduction in reliance on external debt, which offer healthy liquidity cushion.

Outlook: Stable

Acuité believes that the outlook of KEPL will remain 'Stable' over the medium term on account of the promoter's extensive experience and established presence in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	103.26	113.31
PAT	Rs. Cr.	11.39	8.07
PAT Margin	(%)	11.03	7.12
Total Debt/Tangible Net Worth	Times	0.01	0.10
PBDIT/Interest	Times	114.09	75.90

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities In Manufacturing Sector -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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB+ | Stable | Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.