

Press Release

Kayaar Exports Private Limited

March 23, 2023

Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on Rs.30Cr bank facilities of Kayaar Exports Private Limited (KEPL). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation:

The reaffirmation of rating takes into account the stable operating and financial performance of KEPL marked by stable operating income, improved operating margin and healthy financial risk profile. The operating income of the company improved to Rs.163.50 Cr in FY2022 as against Rs.103.26 Cr in FY2021. The improvement was driven by both higher realisation and volumes. The company has recorded sales of Rs.110.75 Cr in 9MFY23 and is expected to close the year in the range of Rs.150-160 Cr.

Operating margins of the company improved to 32.5percent in FY22 from 19.31percent in FY21 on account of lower raw material prices and better realization rates during FY22. However, with steep fluctuations in raw material prices in FY23, the margins moderated during the year. Going forward, the company's ability to improve its scale of operations while maintaining its profitability margins and capital structure will be key monitorable aspects.

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

Acuite 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 and 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.

Stable operating performance:

Operating revenue of the company has improved to Rs.163.50Cr during FY22 against Rs.103.50Cr in FY21. The improvement was driven by both higher realisation and volumes. The company has recorded sales of Rs.110.75 Cr in 9MFY23 and is expected to close the year in the range of Rs.150-160 Cr.

Operational margins of the company have improved to 32.5percent in FY22 from 19.31percent in FY21. This is due to low raw material prices and better realization rates during FY22. Fine counts yarn has better realizations rates compared to coarse count yarn. During 9MFY23, the operating margins moderated and are expected to range between 27-29 percent by year end primarily due to disproportionate increase in raw material cost vis-à-vis realisations. Acuite believes the impact of surge in raw material prices would be partially set off by the savings in power cost of the company due to completion of solar capex during the year which will enable it to steady healthy margins.

Healthy financial risk profile:

Financial risk profile of the company is healthy marked by healthy net worth of Rs.122.11Cr as on March 31, 2022 as against Rs.86.58 Cr as on March 31, 2021. KEPL is a debt free company and utilises cash balances for day to day operation. Debt equity, Debt to EBITDA of the company is zero as on March 31, 2022. The company is expected to maintain its capital structure as it does not plan to incur any debt funded capex plan over the medium term

Weaknesses

Moderate intensive working capital cycle:

Working capital operations of the company are moderately intensive which is evident from GCA days of 150 days as on March 31, 2022 compared to 169 days in previous year. This high GCA days are mainly due to high inventory holding period. KEPL maintain raw material inventory of 6 months in order to meet the demand and quality of the end products. The collection period is in the range of 34-40 days during past 3 years. Working capital limits of the company remained unutilized during the past 12 months ending February, 2023.

Acuite believes that working capital cycle of KEPL will remain moderate intensive in the medium term as the company has to maintain high inventory of raw material in order to meet the quality of the yarn.

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.

Rating Sensitivities

- Significant improvement in the scale of operations while maintaining its profitability margins and capital structure.
- Improvement in its working capital cycle

Material covenants

None

Liquidity Position : Strong

KEPL has strong liquidity, marked by healthy net cash accruals against no repayment obligations. Fund based working capital limits have not utilized during the past 12 months. KEPL is expected to generate NCA's in the range of Rs.30Cr – Rs.45Cr in the medium term with no repayment obligations. As on December 31, 2022 KEPL has unencumbered cash balances worth Rs.23.88Cr in form of FD with banks

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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	163.50	103.26
PAT	Rs. Cr.	35.63	11.39
PAT Margin	(%)	21.79	11.03
Total Debt/Tangible Net Worth	Times	0.00	0.01
PBDIT/Interest	Times	218.70	114.09

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Feb 2022	Cash Credit	Long Term	30.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

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