

Press Release
KAYAAR EXPORTS PRIVATE LIMITED
June 17, 2024

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.30 Cr. bank facilities of Kayaar Exports Private Limited (KEPL). The outlook is 'Stable'.

Rationale for Rating reaffirmation:

The rating reaffirmation factors in KEPL's robust financial risk profile and liquidity position, however with moderation expected in the operating income in FY2024. The operating revenue is estimated to moderate in the range of Rs.125- 130 Cr. in FY2024 due to lower yarn realizations, from Rs.150.11Cr. in FY2023. However, the operating profit margins are estimated to improve in FY2024, primarily driven by cost savings from captive power consumption. The rating further considers that, despite industry headwinds, KEPL has maintained its debt-free status.

Going forward, the company's ability to improve its scale of operations while maintaining its profitability margins and capital structure will be key monitorables.

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 Mr. Ramasamy Arunachalam, Mr. Ramasamy Krishnamoorthy, and Mr. Ramasamy Chennammal.

Unsupported Rating

Not applicable

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:

KEPL's operating revenue declined to Rs.150.11 Cr. in FY2023 from Rs.163.50 Cr. of FY2022, due to lower yarn realisations during the year. Further, it is estimated to decline in the range of Rs.125-130 Cr. in FY2024 due to further decline in yarn realisations as compared to FY2023 levels. As the company is engaged in manufacturing of finer count yarn, the operating profit margins stood at healthy level of 14.86 percent in FY2023 despite lower realizations compared to FY2022 levels. However, the operating margins are expected to improve compared to last year, primarily due savings from captive power consumption. The company has done capex towards expansion of its captive solar power capacity by additional 7.5 Megawatt (MW) in FY2023 the benefits of which have accrued in FY2024. Acuite believes that the ability of the company to grow its revenue while maintaining profitability levels, will remain a key monitorable.

Healthy financial risk profile:

The financial risk profile of the company is healthy marked by healthy net worth of Rs.135.14 Cr. as on March 31, 2023 as against Rs.122.11 Cr. as on March 31, 2022. KEPL is a debt free company and utilises cash balances for day to day operation. Accordingly, the Debt equity, Debt to EBITDA of the company is zero over the past three years ending March 31,2023. 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

Intensive nature of working capital operations cycle:

The working capital operations of the company are moderately intensive which is evident from GCA days of 217 days as on March 31, 2023 compared to 150 days in previous year. This high GCA days are mainly due to high inventory holding period. KEPL maintains 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 25-30 days during past 3 years. Working capital limits of the company remained unutilized during the past 12 months ending May, 2024.

Susceptible to volatility in raw material prices

KEPL's profitability 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

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

Liquidity Position: Strong

KEPL's liquidity position is strong , marked by healthy net cash accruals against no repayment obligations. Further, the fund based working capital limits remained unutilized during the past 12 months ending May 2024. The company also has free cash balances of ~Rs.9 Cr. as on March 31, 2023. Acuite believes, KEPL would remain debt-free backed by sufficient cash balances and generation of healthy NCA's in the range of Rs.25Cr – Rs.30Cr. in the medium term.

Outlook: Stable

Acuité believes that the outlook of KEPL will remain 'Stable' over the medium term on account of the promoter's extensive experience, established presence in the textile industry and robust financial risk profile. 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 elongation 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	150.11	163.50
PAT	Rs. Cr.	13.03	35.63
PAT Margin	(%)	8.68	21.79
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	95.60	218.70

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>
- 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>

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
23 Mar 2023	Cash Credit	Long Term	30.00	ACUITE BBB+ Stable (Reaffirmed)
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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	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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