

## Press Release

Kanish Spinning Mill

March 08, 2023

Rating Assigned



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

## Rating Rationale

Acuite has assigned a long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 30 Cr long term bank facilities of Kanish Spinning Mill (KSPM) The outlook is 'Stable'.

### Rationale for rating assigned

The rating assigned takes in account the long track record of the firm and extensive experience of the partners of more than a decade in textile industry, significant improvement in the operating performance and moderate debt coverage indicators. The rating is however constrained by limited scale of operations, low cash balances, low net worth base, and high gearing along with working capital-intensive nature of business and highly fragmented industry with intense competition. Going forward KSPM's ability to restrict further elongation in working capital cycle and improve its scale of operations and liquidity will remain key rating sensitivity factor.

### About the Company

Tamil Nadu based, Kanish Spinning Mill (KSPM) was established in 2007 as a partnership firm, by Mr. K. Chandrasekaran and Mrs. K. Shanthy. The firm is engaged in manufacturing of cotton yarn with a total installed capacity of 3323MTPA at its manufacturing unit located at Vellakovil, Tamil Nadu.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of KSPM to arrive at the rating.

### Key Rating Drivers

#### Strengths

**Long track record of the firm and experience of the partners for more than one decade in textile industry**

Kanish Spinning Mill (KSPM) was established in 2007 as a partnership firm by Mr. K. Chandrasekaran and Mrs. K. Shanthy. Mr. K. Chandrasekaran has more than 13 years of experience in the textile industry. The extensive experience of the partners and established presence in the industry has helped the firm in developing long standing relationship with its customers and suppliers. The same is reflected through improvement in scale of operations and stable business risk profile. The revenue has grown by around 75 percent during FY2022.

Acuité believes the firm will continue to benefit from the extensive experience of the partners, and established business presence, in the near to medium term.

### **Significant improvement in the operating performance leading to improved debt coverage metrics**

The firm reported revenues of around Rs. 56.28 Cr in FY2022 against Rs. 32.15 Cr in FY2021 and Rs. 31.20 Cr. in FY2020. The increase in the revenues is attributable to increased production along with increase in prices. KSPM reported productions of around 2989MT during FY2022 against 2886 MT in FY2021. During 7MFY2023 the company has already reported revenues of Rs. 41 Cr. The EBITDA margins stood improved at around 14.21 percent during FY2022 against 10.20 percent in FY2021 and 7.39 percent in FY2020. The firm has been continuously incurring capex for automating its processes which has helped save significantly on the labour cost. Further, the firm has also installed solar plant at its manufacturing unit and has been effectively using renewable energy thereby also saving on the power cost. The employee cost and power cost stood at around 7.92 percent and 8.16 percent of the total revenues during FY2022 against 17.29 percent and 11.94 percent in FY2021. Thus, healthy EBITDA margins have resulted in improved debt coverage metrics despite additional debt availed during FY2022 for capex. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at around 4.51 times and 1.88 times respectively during FY2022 against 3.78 times and 1.67 times in FY2021.

Acuité believes, going forward the firm will continue to derive benefit from its capex thereby improving its operating performance.

### **Weaknesses**

#### **Intensive working capital cycle**

The working capital cycle although improved in FY2022 is intensive marked by high GCA days of 125 against 170 days in FY2021. The improvement is attributable to improved inventory and collection days. The average inventory and debtor days for last three years ended FY2022 stood at 51 days each. Further, the firm has paid off its earlier creditor dues during the current year with the USL availed. The trade payables stood at Rs. 2.81 Cr. in FY2022 against Rs. 7.06 Cr. in FY2021 which has significantly reduced the creditor days to 28 in FY2022 against 154 in FY2021. Further, the working capital limits have remained highly utilised at around 94 percent during the six months ended Dec-22.

#### **Low net worth base along with low cash balances**

The firm has low net worth base which stood at around Rs. 11.08 Cr as on March 31, 2022, against Rs. 8.96 Cr. as on March 31, 2021. This has resulted in high gearing of 2.71 times against 1.08 times during the same period. The firm has incurred debt funded capex of around Rs. 18 Cr. during FY2022, and the total debt of Rs. 30 Cr. as on March 31, 2022, includes long term debt of Rs. 22.79 Cr., USL from partners at around Rs. 4.15 Cr. and short-term debt of Rs. 3.07 Cr. Also, the TOL/TNW has also been high at 2.97 times as on March 31, 2022, against 1.89 times as on March 31, 2021. Further, the constitution of the firm being Partnership has an inherent risk of possibility of withdrawal of the capital which can adversely affect its capital structure. Additionally, the cash balances of the firm have stood as low as Rs. 37K and Rs. 0.07 Cr. during the last two years exposing the firm to liquidity risk during any emergency needs.

#### **Highly fragmented industry with intense competition**

The company has a presence in highly fragmented and competitive textile industry, thus limiting its bargaining power in terms of pricing and credit terms with customers. Moreover, the textile industry is highly vulnerable to fluctuation in the global market and several other factors.

### **Rating Sensitivities**

- Improvement in scale of operations while maintaining profitability.
- Any further debt funded capex thereby affecting the capital structure.
- Timely completion and execution of the planned capacity expansion.

## Material covenants

None

## Liquidity Position

### Adequate

The liquidity is adequate to meet its yearly obligations. The NCA stood at Rs. 6.26 Cr against obligations of around Rs. 2.5 Cr. for FY2022. The cash accruals of the company are expected to increase in FY2023 & FY2024, and same are expected to be in the range of Rs. 8 -10 crore as against the repayment obligations close to Rs.5-6 Cr. in the same period. The NCA/TD stood at 0.21 times in FY2022 against 0.25 times in FY2021. The working capital limits have remained utilised at around 94 percent for last six months ended Dec-22. Current ratio as on 31st March 2022 stood at 2.01 times as against 1.25 times on 31st March 2021. Further the firm maintains low cash balances of Rs. 37K as on March 31, 2022

### Outlook: Stable

Acuité believes that KSPM will maintain a 'Stable' outlook in the near to medium term on account of its experienced management, established track record of operations and stable business risk profile. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, while maintaining profitability and its financial risk profile. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins adversely affecting the financial risk and liquidity profile.

## Other Factors affecting Rating

Not Applicable

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	56.28	32.15
PAT	Rs. Cr.	1.90	1.19
PAT Margin	(%)	3.38	3.71
Total Debt/Tangible Net Worth	Times	2.71	1.08
PBDIT/Interest	Times	4.51	3.78

## 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

In order to inform the investors about complexity of instruments, Acuité 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](https://www.acuite.in)

## Rating History:

Not Applicable

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB   Stable   Assigned
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.59	ACUITE BB   Stable   Assigned
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BB   Stable   Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.14	ACUITE BB   Stable   Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.90	ACUITE BB   Stable   Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.24	ACUITE BB   Stable   Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.28	ACUITE BB   Stable   Assigned
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	0.85	ACUITE BB   Stable   Assigned

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### About Acuité Ratings & Research

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