

## Cossmo Tex

February 09, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	0.60	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	3.75	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>4.35</b> <b>(Rs. Four Crore and Thirty-Five Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

Cossmo Tex (CT) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE Ratings Ltd.'s rating on Cossmo Tex's bank facilities will now be denoted as CARE BB; Stable; ISSUER NOT COOPERATING\*. /CARE A4; ISSUER NOT COOPERATING\*.

### Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings assigned to bank facilities of Cossmo Tex (CT) take into account small scale of operations with declined profit margins, profit margin exposed to volatility in raw material prices and forex rates, competition due to fragmented nature of industry, partnership nature of business constitution with inherent risk of withdrawal of capital. The rating however derives strength from experienced promoters, comfortable capital structure and comfortable debt coverage indicators.

### Detailed description of the key rating drivers

The following are the strength and weakness of CT:

#### Key Rating Weakness

##### Small scale of operations with declined profit margins

The scale of operations remained small with total operating income of Rs. Rs. 24.75 crore in FY21 from Rs. 24.52 crore in FY20. The profitability margins of the company ranging from 5.5% to 7.6% over the past three years ended FY21. However, during FY21, the PBILDT margins declined to 7.27% from 7.63% in FY20.

##### Profit margin exposed to volatility in raw material prices and forex rates

The prices of Cotton Fabric, the key raw material is dependent on the prices of cotton and yarn which are governed by various factors such as area under cultivation, monsoon, export quota by Government, international demand-supply situation, etc. Further the major portion of revenue of CT is from export sales and hence the company is exposed to forex risk. However, the firm has hedging mechanism to partially cover forex fluctuation to the extent of export packing credit facility

##### Competition due to fragmented nature of industry

The readymade garments industry has many players because of low entry barriers, driven by limited capital and easy access to raw material. The intense competition in this industry will continue to exert pricing pressure and create a major impact on profitability. Further owing to presence of large numbers of players operating in the manufacturing and exports of readymade garment industry with low degree of product differentiation the industry remained highly competitive and fragmented in nature limiting bargaining power of players of like CT.

##### Partnership nature of business constitution with inherent risk of withdrawal of capital

Cossmo Tex is a partnership nature of business wherein the inherent risk of withdrawal of capital by the partners at the time of their personal contingencies resulting in erosion of capital base leading to adverse effect on capital structure. However, the risks associated with partnership nature of the firm is outweighed by the significant experience of the promoters in the textile business and their ability to bring in capital to support the operations. It is to be noted that the firm has not withdrawn any amount over the past 4 years and has also infused capital of Rs.2.60 crore in the said period.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key Rating Strength

### Experience of promoters

Mr.V. M. Navamani, holds more than two decades of experience in textile industry and he is the promoter of Cossmo Tex. The other partner is Mrs. N. Amutha w/o Mr. Navamani; has sixteen years of experience in the similar industry. CT has two sister concerns- M/s Vijay Apparels (VA) which is engaged in garment stitching and M/s Blueweiss Export (BE) is engaged in export of garments.

### Comfortable capital structure and debt coverage indicators

The capital structure has improved over the years and stood comfortable at 0.75x (PY: 0.53x) as on March 31, 2021. The interest coverage also improved to 7.03x in FY21 from 4.61x in FY20 backed by increased operating profits.

### Liquidity: Stretched

Stretched liquidity is characterized by tightly matched cash accruals to repay its term debt obligations along with moderate cash balance of Rs. 0.09 crore as on March 31, 2021 and with moderate utilisation of working capital limits. The operating cycle elongated however stood comfortable at 55 days in FY21 as against 35 days in FY20 due to stretched inventory period at 79 days (PY:70 days). The firm had sanctioned with working capital limits of Rs. 5.25 crore and the average utilisation stood at 60% for last twelve months ended January 31, 2021. The entity had availed moratorium from one of its lenders from March 2020 to August 2020 as covid relief measures and also sanctioned with emergency covid loan of Rs. 0.40 crore on July 2020 with tenure of 48 months including holiday period of 12 months.

**Analytical approach:** Standalone

### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

[Criteria for Short term Instruments](#)

### About the Company

Cossmo Tex (CT) is a partnership firm established in 2001 by Mr. V. M. Navamani and Mrs. N. Amutha in Tirupur, Tamil Nadu. The firm is engaged in manufacturing of readymade garments for men, women and children. The firm derives maximum revenue by exporting readymade garments to European countries. CT purchases raw material (yarn) from its local suppliers located at Tirupur. CT has an installed capacity of 37 lakh pieces of garment per annum. The firm has around 170 machineries for various processes i.e. sewing machine, power table machine for lining and stitching, ironing machine, packing machine, etc.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	24.54	24.75	NA
PBILD	1.87	1.80	NA
PAT	0.92	0.89	NA
Overall gearing (times)	0.53	0.75	NA
Interest coverage (times)	4.61	7.03	NA

A: Audited; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2022	0.22	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit		-	-	-	0.25	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	3.75	CARE A4; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	August 2024	0.13	CARE BB; Stable; ISSUER NOT COOPERATING*

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	0.22	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (13-Jan-21)	1)CARE BB; Stable (22-Nov-19)	1)CARE BB; Stable (21-Dec-18)
2	Fund-based - LT-Cash Credit	LT	0.25	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (13-Jan-21)	1)CARE BB; Stable (22-Nov-19)	1)CARE BB; Stable (21-Dec-18)
3	Fund-based - ST-Packing Credit in Foreign Currency	ST	3.75	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (13-Jan-21)	1)CARE A4 (22-Nov-19)	1)CARE A4 (21-Dec-18)
4	Fund-based - LT-Term Loan	LT	0.13	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (13-Jan-21)	1)CARE BB; Stable (22-Nov-19)	1)CARE BB; Stable (21-Dec-18)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Packing Credit in Foreign Currency	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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### About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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