

Cossmo Tex
January 13, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	0.60 (Reduced from 0.99)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	3.75	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	4.35 (Rs. Four Crore and Thirty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Cossmo Tex (CT) continues to be tempered by small scale operations, competitive nature of industry along with low diversification of customer base and constitution of a partnership concern with risk of withdrawal of capital.

The rating also factors decline in total operating income and improved profitability margins.

However, the rating also derives benefits from experience of promoters and support from group entities, comfortable capital structure, debt coverage indicators and satisfactory operating cycle.

Rating sensitivities**Positive Factors**

- Consistent increase in firm's scale of operations above Rs. 50 crore while maintaining minimum PBILDT margin above 10% in future years.
- Improving and maintaining the overall gearing from the present level by significant increase in networth base at the back of infusion of capital funds.

Negative Factors

- Further decrease in scale of operations along with decline in profitability margin with PBILDT margin falling below 7% in future.
- Any deterioration in overall gearing above 1.00 times and interest coverage below 3.00 times in any of the years going forward.

Detailed description of the key rating drivers**Key Rating Weaknesses*****Small scale of operations with decline in total operating income in FY20***

Although the company was established in 2001, the scale of operations remained small measured by total operating income, which has dropped by 12% to Rs. 24.54 crore in FY20 and the networth base of Rs. 6.80 crore as on March 31, 2020.

Total operating income of the firm has declined by 12% in FY20 and stood at Rs. 24.54 Crore as against Rs. 27.93 Crore in FY19 on account of decline in order inflows led by slowdown in the demand for apparel from European markets along with nascent stage of COVID-19. The firm derives 75% of income from export sales and remaining driven from domestic sales. Nevertheless, the firm has recorded revenue of ~Rs. 18 crore in 9MFY21.

Competitive nature of industry along with low diversification of customer base

With cluster of textile players in and around Tirupur, the area is burgeoning with both organized and unorganized players for supply of power and weaving. So the firm faces intense competition from both the segments. CT is exposed to customer concentration risk with limited clientele base. It exports its finished goods mostly to European countries.

Constitution of a partnership concern with risk of withdrawal of capital

CT is constituted as a partnership firm wherein it is exposed to frequent withdrawal of partners' capital and resultant erosion of the net worth resulting in lower capital base despite the firm being able to generate sufficient profits in the past. However, the partners have infused capital to the tune of Rs. 1.00 crore as on March 31, 2020.

Key Rating Strengths***Experience of promoters and support from group entities***

Mr.V. M. Navamani, holds more than two decade 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.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Improved profitability margins

The firm has reported improving trend of profitability margins during review period. The PBILDT margin has risen by 207bps to 7.63% in FY20 as against 5.56% in FY19. This accounts decrease in cost of raw material purchased and the firm derived higher margin from sale of specialized garments that includes men, women, girls and boys t-shirt compare to previous year. Further, the PAT margin increased to 3.76% in FY20 from 1.45% in FY19 due to increase in PBILDT in absolute terms supported further by decrease in interest and finance costs.

Comfortable capital structure and debt coverage indicators

Decrease in debt quantum backed by scheduled repayment of term loans followed by decrease in utilization of working capital borrowings as compared to previous year coupled with increase in tangible networth due to accretion of profits and infusion of capital to the tune of Rs. 1.00 crore by the promoters, has resulted in improvement of capital structure marked by overall gearing at 0.53x as of March 31, 2020 as against 1.22x as of March 31, 2019.

With reduction in the debt levels of the firm coupled increase in cash accruals has enabled the firm to indicate comfortable debt protection metrics marked by TD/GCA of 2.45x in FY20 as against 5.83x in FY19. Further with increase in PBILDT in absolute terms coupled with decrease in interest and finance charges has resulted in satisfactory interest coverage at 4.61x in FY20 as against 3.00x respectively in FY19.

Satisfactory operating cycle

The company is into manufacturing of readymade garments, and therefore it has to hold sufficient stock of raw materials to meet its demand from customers. During FY20, the inventory holding mainly consists, 44% of finished products which has been dispatched to the customers in the subsequent months. In addition, the firm receives 30% as advance from one of its major customers. The firm allows the credit period upto 50-60 days to its customers while it avails 85-100 days from its suppliers. The firm relied moderately on working capital limits and the average utilization stood at 60% for last twelve months ended December 31, 2020.

Adequate liquidity

Adequate liquidity characterized by sufficient cushion in cash accruals of Rs. 1.46 crore in FY20 to repay its term debt of Rs. 0.71 crore as on March 31, 2020 and with low cash balance of Rs. 0.14 crore as on balance sheet date. The current and quick ratio of the firm stood respectively at 1.50x and 0.96x as on March 31, 2020. Further, the cash flow from operations remained positive at Rs. 1.40 crore in FY20 (PY: Rs. 0.03 crore). The firm allows the credit period upto 50-60 days to its customers and stretching its creditors from 85-100 days which reduces the reliance in working capital bank borrowings. The average working capital utilization stood moderate at 60% for last twelve months ended December 31, 2020. As per RBI announcement, the firm has availed moratorium from March 2020 to August 2020 from one of its lenders for its rated bank facilities.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Criteria on Short Term Instruments](#)

About the Firm

Cosmo 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 130 seaters producing 3.5 lakh pieces of garment per month. The firm has around 251 machineries for various processes i.e. sewing machine, power table machine for lining and stitching, ironing machine, packing machine, etc. CT has reputed clientele in overseas location.

Brief Financials (Rs.crore)	FY19 (A)	FY20(A)
Total operating income	27.93	24.54
PBILDT	1.55	1.87
PAT	0.40	0.92
Overall gearing (times)	1.22	0.53
Interest coverage (times)	3.00	4.61

(A)-Audited;

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Sep 2022	0.22	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	0.25	CARE BB; Stable
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	3.75	CARE A4
Fund-based - LT-Term Loan	-	-	Aug 2024	0.13	CARE BB; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	0.22	CARE BB; Stable	-	1)CARE BB; Stable (22-Nov-19)	1)CARE BB; Stable (21-Dec-18)	1)CARE BB; Stable (22-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	0.25	CARE BB; Stable	-	1)CARE BB; Stable (22-Nov-19)	1)CARE BB; Stable (21-Dec-18)	1)CARE BB; Stable (22-Dec-17)
3.	Fund-based - ST-Packing Credit in Foreign Currency	ST	3.75	CARE A4	-	1)CARE A4 (22-Nov-19)	1)CARE A4 (21-Dec-18)	1)CARE A4 (22-Dec-17)
4.	Fund-based - LT-Term Loan	LT	0.13	CARE BB; Stable	-	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- Information not available

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the 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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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