

## Kalpataruvu Spinning Mills Private Limited

December 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	77.00	CARE D; ISSUER NOT COOPERATING*	Downgraded from CARE BB; Negative and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Kalpataruvu Spinning Mills Private Limited (KSMPL) to monitor the rating(s) vide e-mail communications dated October 01, 2024, November 14, 2024 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on KSMPL's bank facilities will now be denoted as CARE D; 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.**

**Analytical approach:** Standalone

**Outlook:** Not Applicable

### Detailed description of key rating drivers

#### Key weaknesses

**On going delay in debt servicing:** There are on-going delays in debt servicing of interest and principal repayment of the term loan availed from Indian bank with account overdue for the past few months, as confirmed by banker and auditor interaction dated December 10, 2024, owing to poor liquidity position. Further, the account is classified as NPA and there are delays in payment of statutory dues, namely, PF and TDS for the last quarter due to downfall in the business.

**Declined operational performance in FY23 and H1FY24:** During FY23, KSMPL production levels of Yarn reduced by 42.75% i.e., to 2771 MTs from 5599 MTs in FY22 and sales volume declined by 50.51% compared to FY22 on account of subdued market scenario as well as sharp increase in the prices of cotton yarn resulted in nil exports with uncompetitive prices. The same trend continued for H1FY24, sales volume recorded at 1201 Mts which is about 43% of FY23 sales. Average sales realisation of yarn prices hovering around Rs. 315/kg.

**Declined total operating income and profitability margins in FY23 and H1FY24:** In FY23, KSMPL achieved total operating income (TOI) of Rs. 89.29 crores with significant degrowth by about 40.83% on account of subdued market after boom seen in FY21 and FY22. Average sales realisation of Yarn increased to Rs. 315/kg in FY23 against Rs. 264/kg in FY22. Despite increased selling prices, company's inability to pass on entire rise in cotton prices to its customers and secure export orders due to intense competition from other countries resulted in declined profitability margins. Considering FY22 as an exceptional year, PBILDT and PAT margins of the company declined by 81 bps and 52 bps i.e., 9.00% and 0.18% compared to FY21. During H1FY24, KSMPL has achieved total operating income of Rs. 37.61 crores with operating margin of 12.20% at the back of correction in selling and purchase prices.

**Moderate capital structure and debt coverage indicators:** The debt profile of the company consists of working capital borrowings, term loans, unsecured loans from directors and related parties. Capital structure as represented by debt equity and overall gearing deteriorated to 0.62x and 1.64x as on March 31, 2023 against 0.80x and 1.56x as on March 31, 2022 on account of increased reliance on working capital limits with slow movement in inventory and substantial inventory held at year end attributed to the cotton harvesting season occurring in H2FY23. The debt coverage indicators represented by Interest coverage ratio to 1.37x in FY23 against 3.12x in FY22 on account of declined profitability levels and increased reliance on working capital

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

limits. TDGCA remained high at 19.83x in FY23. As of Sep 30, 2023, overall gearing stood at 1.65x which is marginally deteriorated on account of increased reliance on working capital limits and unsecured loans from promoters. Considering stretch in liquidity, promoters infused funds amounting to Rs. 1.50 crores and further proposed infusion of funds amount to Rs. 2.00 crores in the form of unsecured loans to meet debt repayment obligations for FY24 which is a key monitorable factor from credit perspective.

**Working capital intensive nature of operations:** KSMPL's operations are working capital-intensive, as a higher amount of its working capital remains blocked in inventories. KSMPL procures cotton during the harvesting season, spanning from October to March, to ensure uninterrupted production throughout the year. The challenging scenario in FY23, with sluggish movement of inventory and subdued demand, resulted in high inventory days, i.e., 218 days compared to 117 days in FY22. Additionally, the collection period extended from 30 days in FY22 to 65 days in FY23, resulting in an elongated operating cycle of 210 days in FY23 against 105 days in FY22. Hence, the company mostly funded its working capital requirements through bank borrowings, which resulted in high utilization of its working capital limits, i.e., around 95% during the last 12 months ending in November 2023.

**Volatility associated with raw material prices:** The basic raw material for production of yarn is cotton. Cotton prices are dependent on the government policies, effect of monsoon etc. have been highly volatile in the past few years. Further, the ability to transfer the volatility in raw material prices is limited on account of the low bargaining power of the companies with its suppliers as well as its customers, as the prices of both raw materials and finished goods are dependent upon the market conditions. Furthermore, yarn being a commodity its price is also volatile and movement in yarn prices can also have an impact on the profitability margins of the company.

**Highly competitive & fragmented nature of operations:** Organized sector consisting of large-scale spinning units and composite mills is responsible for majority of installed capacity of the yarn production and unorganized sector consisting of small-scale spinning units account for rest of the capacity. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and suppliers. This leads to highly fragmented industry structure having a high level of competition and intense pricing pressures resulting in lower margins.

## Key strengths

**Experienced promoters in textile industry:** KSMPL's operations are managed by Mr. Raghu Rami Reddy, having an experience of more than three decades in the cotton industry. Long presence in the industry has helped the company in establishing comfortable relationship with its suppliers and customers. Day to day business operations of the company looked after by Mr. Raghu Rami Reddy (Managing Director). Further, the promoters have supported the business by infusing funds in the form of unsecured loans. During current fiscal, promoters infused funds in the form of unsecured loans for amount Rs. 1.50 crores.

**Support from Promoters:** The promoters have been supporting the business by infusing funds in the form of unsecured loans as and when required. Unsecured loans from promoters and related parties stood at Rs. 5.63 crores as on March 31, 2023. Considering stretched liquidity; promoters infused funds in the form of unsecured loans for amount Rs. 1.50 crores and further proposed infusion of funds amount to Rs. 2.00 crores in the form of unsecured loans to meet debt repayment obligations for FY24 which is a key monitorable factor from credit perspective.

**Availability of captive power:** The windmills with aggregate installed capacity of 2.1 MW generated 95% of wind electricity during the FY22. The entire power generated by the windmills were utilized for captive consumption at the spinning mill. With less productivity of Yarn during H1FY22 due to higher raw material costs, the excess wind power was banked, and the company met almost 80% power requirement for FY22 through windmills.

**Industry Outlook:** The textile and apparel sector is currently facing uncertainty and challenges in demand and operational profitability from FY23. However, on a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability, supported by increasing urbanisation, rising disposable income, the China+1 strategy adopted by major global retail players, along with various incentives from the government such as the Remission of Duties and Taxes on Exported Products (RoDTEP), Rebate of State & Central Taxes and Levies (RoSCTL) and the Production-Linked Incentive (PLI) scheme, etc.

## Liquidity: Poor

The liquidity position of the company remained poor with ongoing delays in debt servicing.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

## Applicable criteria

[Policy in respect of non-cooperation by issuers](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Andhra Pradesh based, Kalpataru Spinning Mills Private Limited (KSMPL) was incorporated in the year 2006 and promoted by Mr. Raghu Rami Reddy. KSMPL is into the business of spinning of yarn catering to both domestic and export market. The company's install capacity as on March 31, 2023, was 30,048 spindles and windmills of 2.1 MW which is used for captive consumption. The manufacturing facility of the company is located in Guntur.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	150.92	89.29	37.61
PBILDT	21.08	8.04	4.59
PAT	1.93	0.16	0.20
Overall gearing (times)	1.56	1.64	1.65
Interest coverage (times)	3.12	1.37	1.45

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Infomercials, India Ratings and CRISIL vide its press release dated April 24, 2024, October 18, 2024, and February 22, 2024 respectively, has placed ratings of Kalpataru Spinning Mills Private Limited under "Issuer Not Cooperating" category because of lack of adequate information.

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	30.00	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-EPC/PSC	-	-	-	-	25.00	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Proposed fund based limits	-	-	-	-	8.46	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	-	01-11-2025	2.99	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Working capital Term Loan	-	-	-	January 2026	10.55	CARE D; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	30.00	CARE D; ISSUER NOT COOPERATING*	-	1)CARE BB; Negative (05-Jan-24)	1)CARE BB; Positive (07-Dec-22)	1)CARE BB; Positive (10-Nov-21)
2	Fund-based - LT-Term Loan	LT	2.99	CARE D; ISSUER NOT COOPERATING*	-	1)CARE BB; Negative (05-Jan-24)	1)CARE BB; Positive (07-Dec-22)	1)CARE BB; Positive (10-Nov-21)
3	Fund-based - LT-Working capital Term Loan	LT	10.55	CARE D; ISSUER NOT COOPERATING*	-	1)CARE BB; Negative (05-Jan-24)	1)CARE BB; Positive (07-Dec-22)	1)CARE BB; Positive (10-Nov-21)
4	Fund-based - LT-EPC/PSC	LT	25.00	CARE D; ISSUER NOT COOPERATING*	-	1)CARE BB; Negative (05-Jan-24)	1)CARE BB; Positive (07-Dec-22)	-
5	Fund-based - LT-Proposed fund based limits	LT	8.46	CARE D; ISSUER NOT COOPERATING*	-	1)CARE BB; Negative (05-Jan-24)	1)CARE BB; Positive (07-Dec-22)	-

\*Issuer did not cooperate; based on best available information.

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-EPC/PSC	Simple
3	Fund-based - LT-Proposed fund-based limits	Simple
4	Fund-based - LT-Term Loan	Simple
5	Fund-based - LT-Working capital Term Loan	Simple

**Annexure-5: Lender details**

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

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

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### About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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