

## Sri Karpagam Mills India Private Limited

October 25, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	55.85 (Enhanced from 45.97)	CARE D (Single D)	Reaffirmed
Short Term Bank Facilities	6.45 (Reduced from 13.95)	CARE D (Single D)	Reaffirmed
<b>Total Bank Facilities</b>	<b>62.30</b> <b>(Rs. Sixty-Two Crore and Thirty Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sri Karpagam Mills India Private Limited (SKM) continue to factor in ongoing delays in servicing debt obligations and overdrawals in working capital facilities. The ratings are also constrained by declined scale of operations in FY21 (Prov.) (refers to April 01 to March 31), weak capital structure, weak debt coverage indicators and volatility in raw material prices.

### Rating sensitivities

#### Positive Factors

- Improvement in liquidity and timely servicing of debt obligations along with efficient utilisation of working capital limits on sustained basis.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### *Delay in servicing debt obligations and overdrawals*

The operating cycle of the company elongated to 369 days in FY21 (Prov.) (refers to April 01 to March 31) from 240 days in FY20 due to stretched inventory and collection period. Due to stretched working capital cycle, the company has overdrawn its working capital facilities for more than 30 days and the account remains as NPA.

##### *Declined scale of operations*

During FY21, the size of operations of the company declined and stood moderate with total operating income at Rs. 84.32 crore as against Rs. 121.34 crore in FY20 on account of low production due to Covid lockdown during Q1FY21.

##### *Weak capital structure and debt coverage indicators*

The capital structure of the company continued to remain weak with overall gearing which deteriorated to 5.22x as of March 31, 2021 (Prov.) from 5.19x as of March 31, 2020. The debt coverage deteriorated and remained weak with TD/GCA at 29.43x as of March 31, 2021 as against 20.09x as of March 31, 2020.

##### *Volatility in raw material prices*

The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

##### *Poor Liquidity*

Liquidity is poor marked by lower accruals to repay term debt obligations and fully utilized bank limits and with moderate cash balance of Rs. 1.70 crore as on March 31, 2021 (Prov.). The operating cycle of the company elongated and stood higher at 369 days in FY21(Prov.) from 240 days in FY20 due to higher inventory and collection period which led to overdrawals in working capital limits. The company had not opted for covid moratorium whereas it had availed emergency covid loan of Rs. 5.80 crore on August 2020 with tenure of 48 months including holiday period of 12 months.

### Industry outlook and COVID impact

Cotton production in India is estimated to remain stable y-o-y and stand at 6.1 million tonnes in the current cotton season (CS) October 2020 – September 2021 backed by higher yields. Apart from production, cotton supply includes carry-over

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

stocks from last season which surged by 290.6% to 2.1 million tonnes and as a result total cotton supply during CS 2020-21 is estimated to increase by 21.7% to 8.4 million tonnes. The domestic cotton demand which was disrupted due to Covid-19 pandemic in CS 2019-20 is expected to grow by 32% to 5.6 million tonnes on account of a likely recovery in domestic cotton demand in the current season. After meeting domestic requirements, India is estimated to increase cotton exports by 20% to 1.02 million tonnes backed by improving international cotton consumption and the demand for Indian cotton on account of its competitive pricing in the global markets. Cotton yarn production declined by 21.3% y-o-y to 2,918 thousand tonnes (2.9 million tonnes) during April 2020-February 2021. This was mainly due to sharp decline of 53%-94% in the first 3 months of FY21 on account of Covid-19 disruptions. Thereafter, the output fell by a slower 7.1% in July 2020 and decreased by a marginal 0.5%-1.5% in the months of August 2020, December 2020 and February 2021 and increased by 0.2%-7% in rest of the months during FY21 on account of better domestic demand and increase in exports of cotton yarn.

**Analytical approach:** Standalone

**Applicable Criteria**

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

[CARE'S Policy on curing period](#)

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

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

[Rating Methodology- Cotton Textile Manufacturing](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Criteria on Short Term Instruments](#)

### About the Company

Sri Karpagam Mills India Private Limited (SKM) was incorporated in the year 2005 by Mr. A. Somasundaram and his brothers. SKM is located at Coimbatore, Tamil Nadu and is engaged in manufacturing of cotton yarn of counts 10-60s with installed capacity of 52,800 spindles as on September 30, 2021

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (P)
Total operating income	121.34	84.32
PBILDT	13.34	9.87
PAT	0.52	0.48
Overall gearing (times)	5.19	5.22
Interest coverage (times)	1.42	1.37

A: Audited, P: Provisional

**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:** Not Applicable

**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 2025	19.60	CARE D
Fund-based - LT-Cash Credit	-	-	-	-	36.25	CARE D
Non-fund-based - ST-Letter of credit	-	-	-	-	5.95	CARE D
Non-fund-based - ST-Bank Guarantees	-	-	-	-	0.50	CARE D

**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	19.60	CARE D	-	1)CARE D (04-Sep-20)	-	-
2	Fund-based - LT-Cash Credit	LT	36.25	CARE D	-	1)CARE D (04-Sep-20)	-	-
3	Non-fund-based - ST-Letter of credit	ST	5.95	CARE D	-	1)CARE D (04-Sep-20)	-	-
4	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE D	-	1)CARE D (04-Sep-20)	-	-

**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	Non-fund-based - ST-Bank Guarantees	Simple
4	Non-fund-based - ST-Letter of credit	Simple

**Annexure 5: Bank Lender Details for this Company- Not Applicable**

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact Us

### Media Contact

Name: Mradul Mishra

Contact no.: +91-22-6754 3573

Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name: Naveen S

Contact no.: 0422- 4332399

Email ID: [naveen.kumar@careratings.com](mailto:naveen.kumar@careratings.com)

### Relationship Contact

Name: Pradeep Kumar V

Contact no.: +91-98407 54521

Email ID: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**