

Cossmo Tex
November 22, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	0.99 (Reduced from 1.41 crore)	CARE BB; Stable (Double B; Outlook:Stable)	Reaffirmed
Short-term Bank Facilities	3.75	CARE A4 (A Four)	Reaffirmed
Total Facilities	4.74 (Rupees Four crore and seventy four lakh only)		

Detailed Rationale & Key Rating Drivers

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

The ratings also factor in improved total operating income and profitability margins during FY19, satisfactory capital structure, comfortable debt coverage indicators and satisfactory working capital cycle.

The ratings continue to derive strength from experience of promoters and support from group entities.

Rating Sensitivities**Positive Factor**

- Consistent increase in the firm's scale of operations marked by total operating income along with sustained improvement in its profitability margins i.e. PBILDT margin above 8% and maintaining/ improvement of overall gearing below 1.00 times.

Negative Factor

- Decline in profitability margins below 3.00% along with decline in gross cash accruals and increase in overall gearing level beyond 3.00 times on a sustained basis led by increase in working capital cycle.

Detailed description of the key rating drivers**Key Rating Weakness****Small scale of operations**

The scale of operations continued to remain small marked by total operating income stood at Rs.27.93 crore in FY19 and a networth of Rs.4.88 crore as on March 31, 2019.

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 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.

Stretched Liquidity

Liquidity is marked by highly utilized bank limits and modest cash balance. The firm had debt repayment of Rs.0.36 crore in FY19 met through the internal accruals generated during the year (GCA of Rs.0.81 crore in FY18). It had cash and bank balance that stood at Rs.0.13 crore of the firm as against term debt of Rs.0.36 crore as on March 31, 2019. The current and quick ratio stood at 1.18x and 0.78x, respectively as of March 31, 2019 (PY: 1.06x and 0.79x, respectively). The unutilized portion of working capital borrowings stood at 10% for 12 months ended October 31, 2019.

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

Mr.V. M. Navamani, having 20 years of experience in the textile industry, is the promoter of Cossmo Tex. Other partner Mrs. N. Amutha also has 15 years of experience in the same industry. CT has three sister concerns- M/s Vijay Apparels(VA) and M/s Moniers Tex(MT). M/s Vijay Apparels (VA) is engaged in garment stitching M/s Moniers Tex (MT) is engaged in cutting and packing. M/s Blueweiss Exports (PE) is engaged in export of garments.

Improved total operating income and profitability margins in FY19 (refers to period April 01 to March 31)

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

The total operating income of the firm fluctuating but increased by 3.49% to Rs.27.93 crore during FY19 on account of increase in number of orders received. In FY19, the firm derives 70% of its operating income from export sales while the remaining driven from domestic sales. The firm has achieved total operating income of Rs.14.50 crore (Rs.12.00 crore from export sales and remaining Rs.2.50 crore from domestic sales) in 7 months of FY20.

The PBILDT margin of the firm also fluctuating during review period but increased by 91.70 bps to 5.56% in FY19 from 4.64% in FY18 on account of increase in number of orders executed. Furthermore, PAT margin of the firm increased to 1.45% in FY19 from 1.29% in FY18 on back of increase in PBILDT in absolute terms.

Satisfactory capital structure

The capital structure marked by overall gearing improved and continued to remain satisfactory at 1.22x as of March 31, 2019 as against 1.57x as of March 31, 2018 on account of increase in networth despite increase in total debt levels. The debt equity ratio of the firm stood comfortable but deteriorated slightly to 0.32x as of March 31, 2019 from 0.30x as of March 31, 2018 on account of new term loan availed for the purpose of purchase of new machinery.

Comfortable debt coverage indicators

The debt coverage indicators marked by interest coverage improved and stood comfortable at 3.00x in FY19 as compared to 2.91x in FY18 on account of increase in PBILDT levels. TD/GCA of the firm also improved and stood at 5.83x in FY19 as against 6.39x in FY18 on account of increase in cash accruals as a result of accretion in net profit during FY19.

Satisfactory operating cycle

The operating cycle of the firm improved and stood at 12 days in FY19 as compared to 27 days in FY18. The firm receives 30% as advance from a specific customer. The firm allows credit period upto 50-60 days for the customers. CT receives extended credit period upto 120 days from a specific supplier and the firm avails 40-60 days from remaining suppliers. Adding to this, the firm was holding the finished goods inventory for about 55 days during FY19 and same has been delivered to customers on April 2019.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit ratings](#)

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

[Rating Methodology – Manufacturing Companies](#)

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

[Criteria for 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 lakh pieces of garment per month. The firm has around 250 machineries for various processes i.e. sewing machine, power table machine for lining and stitching, ironing machine, packing machine, etc. Apart from its own manufacturing, CT also purchases garments from its sister concerns- Vijay Apparels (VA) and Blueweiss Exports (BE) wherein CT undertakes the further processes of stitching, cutting and packing. CT has reputed clientele in overseas location.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	26.98	27.93
PBILDT	1.25	1.55
PAT	0.35	0.40
Overall gearing (times)	1.57	1.22
Interest coverage (times)	2.91	3.00

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	-	-	April 2022	0.46	CARE BB; Stable
Fund-based - LT-Cash	-	-	-	0.25	CARE BB; Stable

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Credit					
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	3.75	CARE A4
Fund-based - LT-Term Loan	-	-	Aug 2024	0.28	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	0.46	CARE BB; Stable	-	1)CARE BB; Stable (21-Dec-18)	1)CARE BB; Stable (22-Dec-17)	1)CARE BB; Stable (23-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	0.25	CARE BB; Stable	-	1)CARE BB; Stable (21-Dec-18)	1)CARE BB; Stable (22-Dec-17)	1)CARE BB; Stable (23-Dec-16)
3.	Fund-based - ST-Packing Credit in Foreign Currency	ST	3.75	CARE A4	-	1)CARE A4 (21-Dec-18)	1)CARE A4 (22-Dec-17)	1)CARE A4 (23-Dec-16)
4.	Fund-based - LT-Term Loan	LT	0.28	CARE BB; Stable	-	1)CARE BB; Stable (21-Dec-18)	-	-

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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