

Kandagiri Spinning Mills Limited

July 11, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	49.18 (reduced from 70.09)	CARE B+; Stable (Single B Plus; Outlook :Stable)	Revised from CARE BB-; (Double B Minus)
Short-term Bank Facilities	2.50 (reduced from 5.70)	CARE A4 (A Four)	Reaffirmed
Long/ Short-term Bank Facilities	1.10	CARE B+;Stable/ CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Revised from CARE BB-/ CARE A4 (Double B Minus/ A Four)
Total Facilities	52.78 (Rupees Fifty Two crore and Seventy Eight lakh only)		
Fixed deposit	14.01 (enhanced from 12.67) (Rupees Fourteen crore and One lakh only)	CARE B+(FD) [Single B Plus (Fixed Deposit)]	Revised from CARE BB-(FD) [Double B Minus (Fixed Deposit)]

Details of instruments/facilities in Annexure-1
Detailed Rationale and Key Rating drivers

The revision in the ratings assigned to the bank facilities and fixed deposits of Kandagiri Spinning Mills Limited (KSML) factor in the deterioration in the operational & financial performance of the company marked by decline in revenues during the past two years ended March 2017 and loss reported during FY17 (refers to the period April 1 to March 31). The ratings are also constrained by the highly leveraged capital structure, weakening financial risk profile and debt service parameters, high working capital intensive nature of operations and inherent volatility associated with the raw material and its impact on profitability

The rating, however, draws support from KSML's established track record along with the promoters' vast experience in the textile industry and the company's long-standing relationship with the customers with diverse product offerings.

Going forward, ability of KSML to increase revenues, report profits, manage raw material prices and working capital efficiently would be the key rating sensitivities

Detailed description of key rating drivers
Key Rating Weakness
Decline in operational performance during past two years with net loss reported in FY17:

The operating income declined by 46.2% to Rs.78.26 in FY17 from Rs.144.9 crore in FY16 on account of decline in production and sales volume due to the high procurement price of cotton during the year. During FY17, the company sold 13 windmills of aggregate capacity 10.25MW for around Rs.27 crore including profit of Rs.15.45 crore from the sale of the assets. Including the profit from the above sale of assets, the company reported loss after tax of Rs.11 crore in FY17. KSML also reported cash loss of Rs.3.9 crore during FY17.

Weakening financial risk profile in FY16:

The net worth of the company decreased to Rs.8.3 crore as on March 31, 2017 from Rs.19.03 crore as on March 31, 2016 with losses incurred during FY17. The capital structure weakened during FY17 with overall gearing moderated to 8.04x as on March 31, 2017 from 4.78x as on March 31, 2016.

The promoters have provided financial support to the company in the form of unsecured fixed deposits which has increased to Rs.11.34 crore as on March 31, 2017 from Rs.10.93 crore as on March 31, 2016.

Weak liquidity position with working capital intensive nature of operations:

The working capital cycle of KSML increased from 110 days in FY16 to 146 days in FY17 with the increase in inventory holding. The current ratio stood below unity for the past three years ended FY17 on account of larger amount of debt maturing within the year and higher working capital borrowings. The average working capital utilization stood high at of 95% in the last 12 months ended May, 2017.

Volatile raw material prices impacting profitability:

Cotton, the key raw material consumed by KSML has exhibited high volatility in its prices in the past and in turn impacts the profitability of the company. The purchase price per kg of cotton for the company has increased from to Rs.93/kg in FY16 to Rs.118/kg which is 26.88% higher than FY16. The profitability of spinning mills largely depend on the prices of

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

cotton and cotton yarn, which are governed by various factors such as area under cultivation, monsoon, export quota fixed by the government, international demand-supply situation, etc.,

Key Rating Strengths

KSML's long-standing track record and promoter's vast experience:

KSML has a long-standing track record of operations for around four decades. The company was originally promoted by late Mr S P Ratnam, Mr K R Manicka Mudaliar, Mr S P Sambandam, Mr L Manicka Mudaliar and Mr A Ganesa Mudaliar, all of whom belong to the same family who were traditionally yarn merchants. Mr R Selvarajan (s/o. Mr S P Ratnam), Managing Director, who has four decades of experience in the manufacture and trade of yarn, takes care of the day-to-day operations of KSML. He is ably assisted by his son Mr S Vijayshankar who is the Joint Managing Director and Chief Financial Officer of KSML.

Diverse product offerings:

The product diversity comes from the company's manufacturing capability to produce cotton yarns in the count range of 20s to 100s catering to the market of both hosiery and weaving manufacturers. The company also produces carded, combed, auto-coned, ring doubled, two for one (TFO), compact spun, reverse twist yarns which are customized products.

Analytical approach:

Standalone

Applicable Criteria

[CARE's methodology for manufacturing companies](#)

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

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology for Cotton Yarn Industry](#)

About the Company

KSML was originally incorporated in 1976 in Salem, Tamil Nadu, under the name of 'The Ammapet Sizing Mills Private Limited'. The company took its current name in 1978 and became a public limited company in 1995. KSML is engaged in textile spinning with an aggregate capacity of 67,338 spindles (as on March 31, 2017) spread across three units in Salem.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	145.0	78.3
PBILDT	9.5	(6.2)
PAT	(11)	(11)
Overall gearing (times)	4.78	8.04
Interest coverage (times)	0.72	(0.47)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

Analyst Contact

Name: Mr Harihara Subramanian C

Tel: 044-28490811

Mobile: 97899 98514

Email: harihara.subramanian@careratings.com

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating 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.

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	-	-	May 2023	17.18	CARE B+; Stable
Non-fund-based - ST-BG/LC	-	-	-	0.50	CARE A4
Fund-based/Non-fund-based-LT/ST	-	-	-	1.10	CARE B+; Stable / CARE A4
Fund-based - LT-Cash Credit	-	-	-	32.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.00	CARE A4
Fixed Deposit	-	-	1-3 years	14.01	CARE B+ (FD); 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	17.18	CARE B+; Stable	-	1)CARE BB- (02-Aug-16)	1)CARE BB+ (08-Oct-15)	1)CARE BB+ (16-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	0.50	CARE A4	-	1)CARE A4 (02-Aug-16)	1)CARE A4+ (08-Oct-15)	1)CARE A4+ (16-Oct-14)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	1.10	CARE B+; Stable / CARE A4	-	1)CARE BB- / CARE A4 (02-Aug-16)	1)CARE BB+ / CARE A4+ (08-Oct-15)	1)CARE BB+ / CARE A4+ (16-Oct-14)
4.	Fund-based - LT-Cash Credit	LT	32.00	CARE B+; Stable	-	1)CARE BB- (02-Aug-16)	1)CARE BB+ (08-Oct-15)	1)CARE BB+ (16-Oct-14)
5.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A4	-	1)CARE A4 (02-Aug-16)	1)CARE A4+ (08-Oct-15)	1)CARE A4+ (16-Oct-14)
6.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A4	-	1)CARE A4 (02-Aug-16)	1)CARE A4+ (08-Oct-15)	1)CARE A4+ (16-Oct-14)
7.	Fixed Deposit	LT	14.01	CARE B+ (FD); Stable	-	1)CARE BB- (FD) (02-Aug-16)	1)CARE BB+ (FD) (08-Oct-15)	1)CARE BB+ (FD) (08-Jan-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 99888 05650
 Tel: +91-172-5171 100 / 09
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com