February 07, 2023

The Kadri Mills (Cbe) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Working Capital facilities	40.00	35.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	**40.00**	**35.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings reflects the adequate performance of The Kadri Mills (Cbe) Private Limited (TKMPL) in FY2022 and H1 FY2023 and ICRA's expectations of continued healthy performance over the medium term while maintaining a comfortable capital structure and adequate coverage metrics. While the company recorded a healthy performance in FY2022, characterised by a 42% YoY revenue growth and doubling of the operating margin to 8.8% driven by strong export demand for bed linen and better contribution margin in cotton yarn, the performance has moderated in H1 FY2023 owing to near-term demand headwinds and cost pressure. A steep rise in cotton prices over the last 6-8 months resulted in pressure on the contribution margin of yarn, translating into reduction in the operating margin of TKMPL to 2.7% in H1 FY2023. Additionally, destocking by retailers amid weak end-user demand in the light of rising inflation in western countries led to lower export demand. Nevertheless, TKMPL's financial profile continues to remain healthy, supported by low gearing and comfortable coverage metrics and liquidity. ICRA expects the company to record an operating income in the range of Rs. 250-300 crore p.a. with an operating margin of 4-5% over the medium term.

Further, the ratings continue to favourably factor in the extensive experience of TKMPL's promoters in the textile industry and the integrated nature of its operations with captive spinning, weaving and power generation capabilities. The company's comfortable financial profile, characterised by low reliance on external debt and comfortable liquidity, also supported the ratings.

The ratings, however, continue to remain constrained by TKMPL's relatively moderate scale of operations in an intensely competitive and fragmented industry with limited pricing power. The ratings also consider the vulnerability of TKMPL's profitability to volatility in cotton prices and moderate working capital intensity due to large inventory stocking requirement.

The Stable outlook on the long-term rating reflects ICRA's opinion that TKMPL will continue to maintain a comfortable capital structure and liquidity profile supported by adequate net cash accruals from operations.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – The company's financial profile has improved in the recent past, driven by better earnings, translating into limited dependence on external debt and better debt coverage metrics. TKMPL's gearing remained negligible as on March 31, 2022 and September 30, 2022 while its interest cover improved to above 25 times in FY2022 and H1 FY2023. Despite the proposed expansion plans, TKMPL's coverage metrics are expected to remain comfortable over the medium term.

Forward integrated operations – TKMPL demonstrates a healthy level of forward integration in the textile value chain across spinning and weaving. This enables the company to cater to a larger customer base and increase value addition, which supports its margins to an extent. The company also has captive power generation capacities, which aid in cost optimisation.

Established market position and long track record of promoters – TKMPL has a long track record of over seven decades in the textile industry and has an established position in the cotton yarn (coarser counts segment) and bed linen segments. The promoters have extensive experience in the textile industry, which is expected to aid in TKMPL's operations.

Credit challenges

Moderate scale of operations and profitability – TKMPL's scale of operations remains moderate with an operating income of Rs. 306 crore in FY2022 and around Rs. 250 crore expected in FY2023. This limits the economies of scale to an extent in a capital-intensive sector. Further, the company's profitability remains moderate with an operating margin in the range of 4-5% p.a. due to relatively lower value addition in the spinning segment and high cyclicality in demand for bed linen products.

Vulnerability of earnings to volatility in raw material prices – The profit margin of TKMPL remains susceptible to fluctuations in raw material (cotton) prices, which are prone to high volatility owing to the seasonal availability. Adverse movement in raw material prices could affect the contribution margins of yarn and fabric output, thereby impacting the earnings.

Intense competition and limited pricing power – The textile industry in India is highly fragmented with intense competition among the operating units. This, along with the commoditised nature of products, limits the pricing power of market players.

Liquidity position: Adequate

TKMPL's liquidity remains adequate, characterised by free cash and liquid investments worth Rs. 20.6 crore as on September 30, 2022 (provisional) and a buffer of Rs. 35 crore in the form of unutilised sanctioned working capital limits. The company is expected to generate annual cash flow from operations in the range of Rs. 2-6 crore. While TKMPL does not have any debt repayment obligation, it has plans to incur growth capex of ~Rs. 25 crore in FY2024, funded entirely through internal accruals. The liquidity profile is further supported by only 5% average utilisation of the sanctioned working capital facilities during the 12-month period ending on November 30, 2022.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to register a healthy growth in revenue and improve its profitability on a sustained basis, while maintaining comfortable debt protection metrics and liquidity.

Negative factors – The ratings may be downgraded if there is any sustained pressure on the operating performance of the company or any large debt-funded capital expenditure, which could adversely impact the coverage metrics and liquidity. Specific credit metrics that could result in ratings downgrade include Total Debt/OPBDITA above 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Spinning) Rating Methodology – Textiles (Fabric Making)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

The Kadri Mills (Cbe) Private Limited, incorporated in 1946, operates two open-end spinning units and one weaving unit in Coimbatore, Tamil Nadu. The company has an installed capacity of 28,920 spindles, 15,424 rotors and 44 looms. It has installed five windmills totalling to 3.3 MW and roof-top solar power modules totalling to 2 MW for captive consumption.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Provisional)
Operating income	216.0	305.9	132.6
PAT	5.4	15.6	1.9
OPBDIT/OI	4.7%	8.8%	2.7%
PAT/OI	2.5%	5.1%	1.4%
Total outside liabilities/Tangible net worth (times)	0.5	0.1	0.1
Total debt/OPBDIT (times)	3.0	0.0	0.0
Interest coverage (times)	6.0	28.8	29.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Feb 07, 2023	Feb 17, 2022	Dec 31, 2021	Sep 25, 2020	-
1	**Working Capital Facilities**	Long term/ short term	35.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-
2	**Unallocated Limits**	Long term	-	-	-	-	-	[ICRA]A- (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Working Capital Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	**Working Capital Facilities**	NA	NA	NA	35.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis – N.A.

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