May 31, 2024

The Kadri Mills (Cbe) Private Limited: Ratings downgraded to [ICRA]BBB (Stable)/ [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Working Capital facilities	35.00	35.00	[ICRA]BBB (Stable)/[ICRA]A3+; downgraded from [ICRA]BBB+ (Stable)/ [ICRA]A2;
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade takes into consideration a moderation in The Kadri Mills (Cbe) Private Limited (TKMPL) performance, reflected by a fall in the company's top line in FY2024 (provisional) by around 17% to ~Rs. 209 crore (after a ~18% reduction witnessed in FY2023) on a YoY basis and significant net loss suffered by the company owing to near-term demand headwinds in the export market and cost pressure. TKMPL's operating margin fell to ~1.9% in FY2023 and it is likely to report an operating loss of around Rs. 15.5 crore in FY2024 (provisional). Nevertheless, the company continues to maintain a conservative capital structure due to limited external borrowings and adequate liquidity amid absence of repayment obligation in the near-to-medium term. The ongoing capex is also funded by internal sources. ICRA expects the company's overall performance to improve substantially in the current fiscal, given the current healthy order book and focus on high-end products and strategic diversifications. 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 also supported the ratings.

Further, the ratings continue to remain constrained by the vulnerability of TKMPL's profitability to volatility in cotton prices and moderate working capital intensity due to large inventory stocking requirement. The ratings also factor in the intense competition and limited pricing power in the textile business.

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

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.

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.

Conservative capital structure and adequate liquidity profile – TKMPL's capital structure has remained conservative over the years, characterised by low reliance on external debt and ICRA does not foresee any major deterioration in the same in the medium term. Despite the proposed expansion plans, which are being funded by internal sources, TKMPL's liquidity profile is expected to remain adequate owing to no debt repayment obligations in the near-to-medium term and adequate buffer of Rs. 24 crore in the form of unutilised sanctioned working capital limits as on February 28, 2024.

Credit challenges

Weakened operating performance and profitability – The company's revenue declined by 18% to Rs. 250.9 crore in FY2023 and by ~17% in FY2024 (provisional) to Rs. 209.5 crore owing to near-term demand headwinds in the exports market, which resulted in a drop in production of fabric/ home textile (bed linen/sheet, blankets and throws). Consequently, the company reported a reduction in the operating margin to 1.9% in FY2023 and is likely to report an operating loss of around Rs. 15.5 crore in FY2024. Nevertheless, the company continues to maintain a comfortable capital structure and liquidity owing to absence of term debt obligations in the near-to-medium term. Also, ICRA believes that the company's overall performance would improve substantially in the current fiscal, given the current healthy order book and focus on high-end products and strategic diversifications.

Vulnerability of earnings to volatility in raw material prices – The profit margins of TKMPL remain susceptible to fluctuations in prices of cotton, which is prone to high volatility because of its seasonal availability. Adverse movement in raw material prices (cotton) could impact the contribution margins of yarn and fabric output, thereby impacting 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 of more than Rs. 1.00 crore (excluding encumbered cash of Rs. 5 crore) as on March 31, 2024 (provisional) and a buffer of Rs. 24 crore in the form of unutilised sanctioned working capital limits as on February 28, 2024. While TKMPL does not have any debt repayment obligation, it has plans to incur capex of ~Rs. 17 crore combined in FY2024 and FY2025, funded entirely through internal accruals majorly from non-current investment (mutual funds) of Rs. 20.85 crore as on March 31, 2023. The liquidity profile is further supported by only 12% average utilisation of the sanctioned working capital facilities during the 12-month period ending on February 28, 2024. The company's cash flow from operations is also expected to remain positive in FY2025 and thereafter.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to register a healthy growth in revenue and increase its profitability on a sustained basis, resulting in an improvement in its debt protection metrics.

Negative factors – The ratings may be downgraded if there is 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 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Spinning)
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

	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Provisional)
Operating income	305.9	250.9	209.0
PAT	15.6	0.0	-18.8
OPBDIT/OI	8.8%	1.9%	-7.8%
PAT/OI	5.1%	0.0%	-9.0%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	0.4
Total debt/OPBDIT (times)	0.0	1.1	-1.1
Interest coverage (times)	28.8	4.2	-24.3

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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					May 31, 2024	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]A3+	[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]A3+

Source: TKMPL

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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