

March 25, 2025

## Tirumala Cotton & Agro Products Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Term loan	65.42	46.82	[ICRA]BB- (Stable); reaffirmed
Long term – Fund-based – Cash credit	60.00	60.00	[ICRA]BB- (Stable); reaffirmed
Long term – Unallocated limits	0.00	18.60	[ICRA]BB- (Stable); reaffirmed
<b>Total</b>	<b>125.42</b>	<b>125.42</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation on the bank lines of Tirumala Cotton & Agro Products Private Limited (TCAPPL) considers an expected recovery in operational and financial performances over the medium term, following a likely moderation in FY2025, due to decline in volumes processed at the cotton oil extraction division. The rating remains supported by its established track record and experience of its promoters in the cotton oil extraction and spinning businesses. Despite an increase in volumes processed in FY2024, revenue growth remained flat due to lower realisation, due to tepid demand conditions. TCAPPL registered revenues of Rs. 371.9 crore in FY2024. Besides, moderation in raw material prices supported a 100 bps increase in operating margins on a YoY basis to 5.3% in FY2024. However, TCAPPL's revenues and earnings are likely to moderate in FY2025 due to reduction in volumes at the cotton oil division owing to unfavourable raw material prices. The rating also considers the location-specific advantages of TCAPPL for being close to the cotton-growing areas of Guntur and the operational efficiency arising from its vertically integrated operations with presence in spinning, oil extraction and refining, along with captive ginning. Also, 60-65% of its power requirement is met from captive sources, which supports its profitability. ICRA notes the receipt of recent order by TCAPPL from the High Court of Andhra Pradesh towards receipt of pending Government subsidies. The timely receipt of the same would remain a key monitorable.

The rating, however, remains constrained by the moderate financial profile characterised by modest leverage and coverage metrics. The key coverage metrics have remained weak with an interest coverage and debt service coverage ratio of 2.1 times and 0.9 times, respectively, in FY2024 compared to 2.0 times and 0.9 times, respectively, in FY2023. Despite a likely improvement in its profitability over the medium term, supported by captive power generation and moderation in raw material prices, key credit metrics are likely to remain moderate over the medium term, given the sizeable repayment obligations. Further, the rating factors in increased working capital requirements given the seasonality associated with raw material availability, which requires stocking during the harvest season and an elongated working capital cycle. Further, it remains exposed to availability and price fluctuations of the raw materials, regulatory changes and agro-climatic risks, which, coupled with the fragmented industry structure, results in limited pricing power and keeps the profitability under check.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectations that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

## Key rating drivers and their description

### Credit strengths

**Established presence and proximity to cotton-growing areas** – TCAPPL has an established presence in the textiles and cottonseed oil industry. The company is among the largest cottonseed oil extractors with 500-MTPD seed processing capacity, 350-MTPD solvent extraction capacity and 50-MTPD refining capacity. TCAPPL's spinning division (cotton yarn) has an installed capacity of 38,800 spindles, the hydel power division has a capacity of 2.4 MW, windmill has a capacity of 8.3 MW and solar power plant has a capacity of 0.7 MW. It also enjoys location-specific advantages as the plant is near the major cotton growing belt of Guntur, Andhra Pradesh, leading to better access to all raw materials and lower logistics costs. Moreover, TCAPPL has established relationships with suppliers and customers, yielding repeat orders.

**Integrated nature of operations** – The company's revenue profile is diversified with vertically-integrated operations comprising spinning, oil extraction and refining, along with captive ginning and hydel power, windmill and solar, leading to better operational efficiency and value addition. Around 60% of its total power requirement is met through captive power generation, supporting the overall earnings of the company. Further, 15% of the cotton seed requirement in the oil division and 30% of the requirement in the spinning division are met through captive ginning.

### Credit challenges

**Moderate financial profile** – TCAPPL's financial profile is characterised by moderate leverage and coverage indicators due to modest earnings, high working capital requirements in business and increase in working capital intensity to 30.6% in FY2024 (27.1% in FY2023) due to increased year-end stocking. The lower earnings and increase in debt levels led to a modest debt protection metrics with total debt to operating profits and interest cover ratios 6.8 times and 2.1 times, respectively, in FY2024. Further, the company's DSCR remained weak at 0.9 times in FY2024. Despite a likely improvement in its profitability over the medium term, supported by captive power generation and moderation in raw material prices, key credit metrics are likely to remain moderate over the medium, given the sizeable repayment obligations.

**Exposure to regulatory and agro-climatic risks** – Given the intense competition and limited pricing flexibility in the business, TCAPPL's earnings remain exposed to agro-climatic risks, as availability of cotton is seasonal and the pricing is subject to demand-supply scenario, with the cotton season running from mid-September to March every year. TCAPPL is also exposed to regulatory risks with respect to the minimum support price (MSP) for raw cotton, which is decided by the Government every year.

### Liquidity position: Stretched

TCAPPL's liquidity position is expected to remain stretched, given the limited buffer available in the working capital limits and sizeable debt repayment obligations. The average utilisation of its sanctioned working capital limits (including seasonal limit) stood at 70.1% over the past 12 months ending in February 2025 with it peaking to 99% in December 2024. The entity has free cash & bank balances of Rs.8.3 crore as on March 31, 2024, and is likely to generate cash accruals of Rs. 7-9 crore in FY2025, against repayment obligations of Rs. 17.5 crore in FY2025. Going forward, its liquidity is expected to be supported by likely receipt of pending subsidy dues over the near to medium term.

## Rating sensitivities

**Positive factors** – TCAPPL’s rating may be upgraded, if there is a sustained growth in revenues and earnings and if the working capital cycle improves, which in turn would lead to an improvement in debt protection metrics and liquidity position of the company. Specific credit metrics, which may lead to rating upgrade, include DSCR above 1.2 times on a sustained basis.

**Negative factors** – The rating may be downgraded, if there is any sustained pressure on the earnings or an elongation of the working capital cycle, which would adversely impact the liquidity position and debt protection metrics of the company. Further, any increase in investments in Group companies, weakening the liquidity position, could also lead to a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Textiles – Spinning</a> <a href="#">Edible Oil</a>
Parent/Group support	Not Applicable
Consolidation/ Standalone	The rating is based on the standalone financial statements of the rated entity

## About the company

Tirumala Cotton & Agro Products Private Limited (TCAPPL), located in Guntur, Andhra Pradesh was set up in 1990 by Mr. Karanam Hanumantha Rao, Mr.Raghava Rao, Mr.B. Jawahar Babu, Mr. Challagundla Basavaiah, Mr. K. Venkata Rama Koteswara Rao and Mr. K.P.S. Rama Rao. The company is a closely held business and was primarily engaged in cotton seed oil extraction and refining till 2005-06. Subsequently, it diversified into cotton yarn spinning in November 2006. At present, the company has an extraction capacity of 500 MT/day of cottonseed, 350MT/day of solvent extraction, 36 gins, 38,800 spindles capacity, 2.4-MW hydel plant and 8.3-MW wind turbine generators and 0.7 MW of roof mounted solar plant.

## Key financial indicators (audited)

TCAPPL Standalone	FY2023	FY2024	9M FY2025*
Operating income	366.0	371.9	229.9
PAT	6.7	6.0	1.3
OPBDIT/OI	4.3%	5.3%	4.6%
PAT/OI	1.8%	1.6%	0.6%
Total outside liabilities/Tangible net worth (times)	1.8	1.8	1.5
Total debt/OPBDIT (times)	8.0	6.8	8.5
Interest coverage (times)	2.0	2.1	1.6

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; \* Provisional Numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instruments	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based – Term loans	Long Term	46.82	Mar 25, 2025	[ICRA]BB-(Stable)	Feb 15, 2024	[ICRA]BB-(Stable)	Jan 05, 2023	[ICRA]BB (Stable)	Dec 16, 2021	[ICRA]BB (Stable)
Fund based – Cash credit	Long Term	60.00	Mar 25, 2025	[ICRA]BB-(Stable)	Feb 15, 2024	[ICRA]BB-(Stable)	Jan 05, 2023	[ICRA]BB (Stable)	Dec 16, 2021	[ICRA]BB (Stable)
Unallocated Limits	Long Term	18.60	Mar 25, 2025	[ICRA]BB-(Stable)	-	-	-	-	-	-
Fund Based Limits	Short Term	-	-	-	-	[ICRA]A4; Withdrawn	Jan 05, 2023	[ICRA]A4+	Dec 16, 2021	[ICRA]A4+
Unallocated Limits	Long term/ Short term	-	-	-	-	[ICRA]BB-(Stable)/ [ICRA]A4 Withdrawn	Jan 05, 2023	[ICRA]BB (Stable)/ [ICRA]A4+	Dec 16, 2021	[ICRA]BB (Stable)/ [ICRA]A4+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term loan	Simple
Long term – Fund based – Cash credit	Simple
Long term – Unallocated limits	Not Applicable

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
NA	<b>Fund based – Term loans</b>	FY2013-FY2024	NA	FY2025-FY2032	46.82	[ICRA]BB- (Stable)
NA	<b>Fund based – Cash credit</b>	NA	NA	NA	60.00	[ICRA]BB- (Stable)
NA	<b>Unallocated Limits</b>	NA	NA	NA	18.60	[ICRA]BB- (Stable)

Source: Company

**Annexure II: List of entities considered for consolidated analysis – Not Applicable.**

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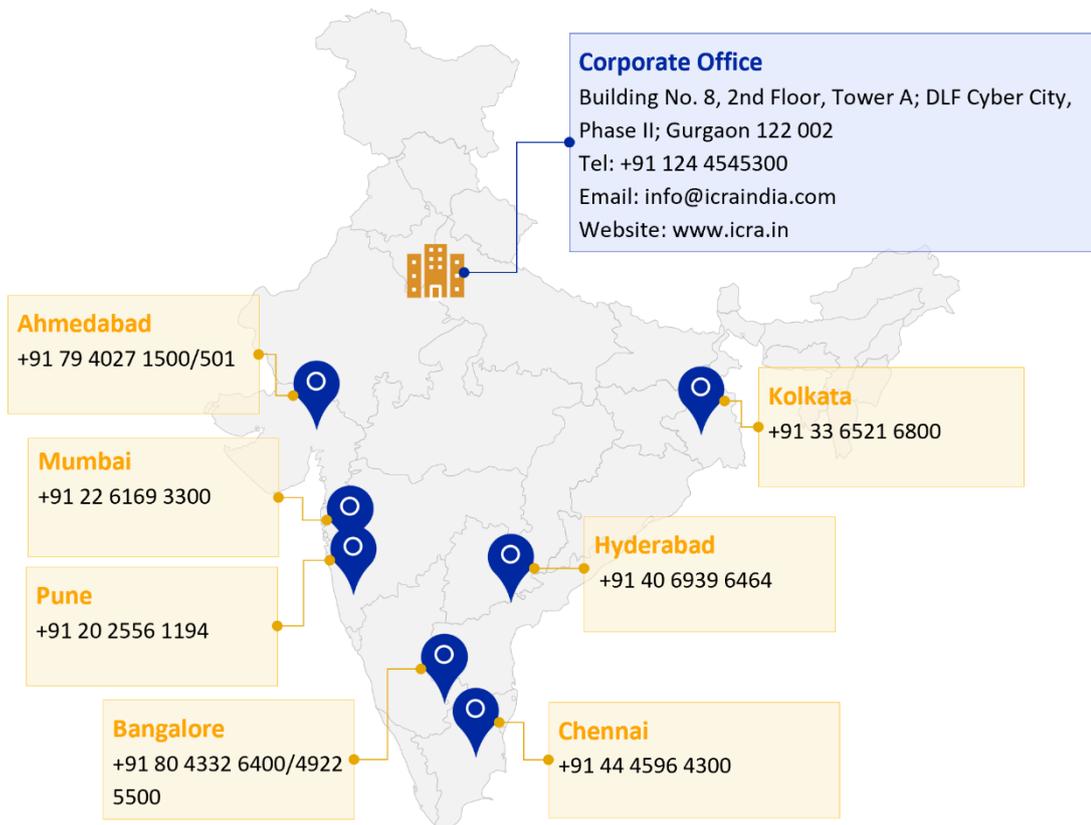
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