February 15, 2024

Tirumala Cotton & Agro Products Private Limited: Ratings downgraded to [ICRA]BB-(Stable)/[ICRA]A4 and short term ratings withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Term Loan	49.70	65.42	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)
Long Term - Fund Based- Cash Credit	60.00	60.00	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)
Short Term - Fund Based	6.00	0.00	[ICRA]A4 downgraded from [ICRA]A4+ and withdrawn
Long Term / Short Term - Unallocated	9.72	0.00	[ICRA]BB- (Stable)/[ICRA]A4 downgraded from [ICRA]BB (Stable)/[ICRA]A4+ and short-term rating withdrawn
Total	**125.42**	**125.42**	

Instrument details are provided in Annexure-I

Rationale

The rating action reflects the weaker-than-expected performance of Tirumala Cotton & Agro Products Private Limited (TCAPPL) in FY2023 and the likely continued pressure on its earnings and debt coverage indicators in the current fiscal. Given the unfavourable yarn realisations on account of modest demand conditions and higher raw material prices (cotton) coupled with unfavourable oil prices as well, TCAPPL's revenues fell by ~10% in FY2023 and it had reported lower operating margins. The same led to weaking of debt coverage metrics with Total Debt/OPBDITA of 7.9 times in FY2023 and DSCR of 0.9 times, as on March 31, 2023. While TCAPPL's performance is likely to improve in Q4 FY2024 (which would remain a key rating sensitivity), the earnings and debt coverage indicators are expected to remain modest in the current fiscal as well. The rating continues to factor in TCAPPL's limited pricing flexibility and exposure of its earnings to volatile raw material prices, regulatory changes, and agro-climatic risks. However, the rating positively considers the established presence and location specific advantages of TCAPPL for being present in proximity to the cotton growing areas of Guntur. The rating also considers the operational efficiency arising from its vertically integrated operations with presence in spinning, oil extraction and refining, along with captive ginning and power generation.

The Stable outlook reflects ICRA's expectation that TCAPPL's performance would improve, going forward, with decline in raw material prices and improved demand scenario.

ICRA has withdrawn the short term ratings assigned to the bank facilities of TCAPL, as the company closed the short term funded based facilities, and in accordance with ICRA's policy on withdrawal

Key rating drivers and their description

Credit strengths

Established presence and proximity to cotton-growing areas – 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 726 kWh. It also enjoys location-specific advantages as the plant is located near the major cotton growing belt of Guntur, Andhra Pradesh, resulting in better access to all raw materials and lower logistics costs.

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, resulting in 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

Moderation in coverage indicators in FY2023; likely to continue in the current fiscal – TCAPPL's credit metrics moderated in the current year, constrained by high utilisation of debt for funding the working capital requirements in the business and recent debt-funded capex. Key credit metrics including interest coverage and total debt/operating profits moderated to 2.0 times and 7.9 times, respectively in FY2023 against 2.5 times and 6.5 times, respectively in FY2022. The credit metrics are expected to remain moderate in the current fiscal as well given the lower earnings and increase in debt obligations. Further, the company's DSCR deteriorated to below unity in FY2023.

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 be stretched, given the lower earnings and higher working capital requirement in the business. TCAPPL has principal debt repayment obligations of ~Rs.14 crore in FY2024 and Rs.17 crore in FY2025 against expected cash flow from operations of Rs. 6-9 crore. However, its liquidity is expected to be supported by the recent sanction of working capital term loans and adequate unutilised lines of credit worth ~Rs.15 crore as on December 31, 2023. Its liquidity is also expected to be supported by the likely receipt of some amount of loans and advances extended to Group companies.

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 would result in 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 investment in Group companies, weakening the liquidity position, could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

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, Mr. K.P.S. Rama Rao and subsequently inducted Mr. P. Bhargavaram, Mr. P.Amarchand, Mr. P.Koti Rao and Mr. N. Lakshminarayana in its board. TCAPPL was involved in cottonseed oil extraction and refining till 2005-2006. Subsequently, it diversified into cotton yarn spinning in November 2006 and has a capacity of 500 MT/day of cottonseed extraction, 350 MT/day of solvent extraction, 36 gins, 38,800 spindles, 2.4-MW hydel plant, 725-kWh solar power plant and 8.3-MW wind turbine generators.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	405.0	366.6
PAT	6.9	6.7
OPBDIT/OI	5.5%	4.3%
PAT/OI	1.7%	1.8%
Total outside liabilities/Tangible net worth (times)	2.2	1.8
Total debt/OPBDIT (times)	6.5	7.9
Interest coverage (times)	2.5	2.0

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 15, 2024	January 05, 2023	December 16, 2021	September 03, 2020
1	**Fund Based - Cash Credit**	Long Term	60.00	-	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
2	**Term Loans**	Long Term	65.42	51.07	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
3	**Fund Based**	Short Term	0.00		[ICRA]A4; withdrawn	[ICRA]A4+	[ICRA]A4+	[ICRA]A4
4	**Unallocated**	Long Term/ Short Term	0.00	-	[ICRA]BB- (Stable); and [ICRA]A4 withdrawn	[ICRA]BB (Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4+	[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

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	Cash Credit	-	NA	-	60.00	[ICRA]BB- (Stable)
NA	Term Loan	FY 2013-FY2024	NA	FY2025-FY2032	65.42	[ICRA]BB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis - Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Gaurav Singla
+91 12 4454 5366
gaurav.singla@icraindia.com

Vilasagaram Nandakishore
+ 91 40 6939 6407
vilasagaram.nandakishore@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches