April 27, 2021

Idupulapadu Cotton Mills Pvt. Ltd.: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Term Loan	74.41	[ICRA]BB(Stable) assigned
Fund based – Cash Credit	116.00	[ICRA]BB(Stable) assigned
Non-fund based – Short term	78.90	[ICRA]A4 assigned
Unallocated Limits	5.69	[ICRA]BB(Stable) assigned
Total	**275.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings consider Idupulapadu Cotton Mills Pvt. Ltd's (ICMPL) experienced presence in the cotton spinning industry and its strong relationships with its suppliers and customers. The ratings factor in the company's moderate scale of operations with an installed capacity of 1,28,550 spindles and 7,200 rotors. Further, ICMPL has a vast portfolio of products including value-added yarns such as slub, flax, compact, etc, of counts ranging from 16's to 60's. The ratings also consider the location-specific advantage, given its presence in the cotton producing Guntur belt.

The ratings, however, remain constrained by ICMPL's high gearing and weak coverage indicators. The company's revenues declined over the past four years because of lower sales volumes, leading to decreased profitability. Moreover, its revenues and margins were impacted in H1 FY2021 by the Covid-19 pandemic and low price realisations. However, in H2 FY2021, the realisations improved leading to higher revenues and margins. ICMPL's liquidity is stretched with high repayment obligations of Rs. 30-35 crore over the next 12 months against low cash balances and negligible buffer in working capital limit. The company maintains high inventory levels owing to seasonality in raw material availability. Its inventory holding increased significantly in FY2020 and FY2021, leading to significant stretch in the working capital intensity as on March 31, 2021. However, the inventory levels are expected to reduce in the next few months given the end of peak cotton procurement season. The company's inventory holding and liquidity position would be the key rating monitorable. The ratings also consider intense competition in the industry and vulnerability of its margins to fluctuating raw material and yarn prices.

The Stable outlook on the [ICRA]BB rating reflects ICRA's belief that the company will benefit from its established presence in the spinning industry and its relationships with customers and suppliers.

Key rating drivers and their description

Credit strengths

Experience of promoters in cotton trading – The company has 30 years of experience in the cotton spinning industry, which resulted in established relationships with its suppliers and customers.

Moderate scale of operations – The company has moderate scale of operations with an installed capacity of 1,28,550 spindles and 7,200 rotors and an established presence in the knitting and woven yarn markets of South India, having catered to the medium and finer count requirements for more than three decades. ICMPL's product portfolio includes value-added yarn such as doubled, slub, compact, and lycra yarn and is been spread across medium and finer counts.

Proximity to raw material sources saves on logistics cost – The mills located in the cotton producing belt of Guntur not only benefit from ready availability of raw material, but also enjoy lower transportation costs. During the peak cotton season, ICMPL makes a significant part of its cotton purchases, as the first lot of cotton ensures higher profits.

Credit challenges

Demand slowdown impacted revenues and margins in H1 FY2021; weak coverage indicators – The company's revenues declined over the past four years because of lower sales volumes, leading to decreased profitability. Moreover, its revenues and margins were impacted in H1 FY2021 by the pandemic and low price realisations. However, the revenues and margins have been improving since H2. ICMPL's financial profile is characterised by leveraged capital structure indicated by gearing of 1.6 times as on March 31, 2020 and weak coverage indicators as depicted by DSCR of 0.8 times, interest cover of 1.7 times, and TD/OPBITDA of 4.4 times

Stretched liquidity position – Its inventory holding increased significantly in FY2020 and FY2021, leading to significant increase in working capital intensity estimated over 70% in March 2021. The company's liquidity position is stretched given the high repayment obligations, against lower cash flows, low cash balances and limited buffer in working capital limits. It availed moratorium on debt obligations for the period March – August 2020.

Profitability vulnerable to fluctuation in cotton and yarn prices – Raw material costs are the major costs for the company, which accounted for close to 70% of the revenues over the past four years. ICMPL procures the entire year's requirement during the peak cotton season and hence is susceptible to fluctuations in cotton and yarn prices, which depend on factors such as seasonality, monsoon condition, international demand and supply situation, export policy, etc, during the year.

Liquidity position: Stretched

The company's liquidity is **stretched** with the high repayment obligations of Rs. 30-35 crore over the next 12 months as against low cash balances and negligible buffer in working capital limits (as working capital limits are fully utilised). It availed moratorium on debt obligations for the period March – August 2020. Further, ICMPL has availed a COVID loan of Rs. 38.56 crore, which supported its liquidity position to an extent in FY2021. The working capital intensity remained high at over 50% during the past year owing to high debtor and inventory days. The same increased further in FY2021 because of higher inventory.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings of ICMPL if the profitability improves leading to improved coverage metrics and better working capital management results in improved liquidity position. Specific credit metrics that could lead to an upgrade in ratings are DSCR greater than 1.2 times on a sustained basis.

Negative factors – Negative pressure could arise on the ratings of ICMPL if the profitability deteriorates leading to further stretch in coverage indicators and impacting the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry– Spinning
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Started as a partnership firm, Idupulapadu Cotton Mills and converted into a private limited company in 1994, ICMPL is involved in production of cotton yarn. The company has an installed capacity of 1,28,550 spindles, 7,200 rotors and 4-MW wind mills. It was promoted by the Late Kamepalli Subba Rao and is at present managed by his son, Mr. Kamepalli Brahmanaidu.

Key financial indicators (audited)

ICMPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	477.1	405.9
PAT (Rs. crore)	5.2	12.2
OPBDIT/OI (%)	9.6%	10.9%
PAT/OI (%)	1.1%	3.0%
Total Outside Liabilities/Tangible Net Worth (times)	3.1	2.8
Total Debt/OPBDITA (times)	4.1	4.5
Interest Coverage (times)	1.7	1.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: CRISIL, in its rationale published on Idupulapadu Cotton Mill Pvt. Ltd. has moved the company's ratings to Issuer Not Cooperating category at CRISIL/BB in November 2020.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					April 27, 2021	-	-	-
1	Fund based – Term Loan	Long-term	74.41	74.41	**[ICRA]BB (Stable)**	-	-	-
2	Fund based – Cash Credit	Long-term	116.00	NA	**[ICRA]BB (Stable)**	-	-	-
3	Non-fund based – Short term	Short-term	78.90	NA	**[ICRA]A4**	-	-	-
4	Unallocated Limits	Long-term	5.69	NA	**[ICRA]BB (Stable)**	-	-	-

&= Under watch with developing implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Term Loan	September 30, 2020	9.75%	September 30, 2025	74.41	[ICRA]BB(Stable)
NA	Fund based – Cash Credit	NA	NA	NA	116.00	[ICRA]BB(Stable)
NA	Non-fund based – Short term	NA	NA	NA	78.90	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	5.69	[ICRA]BB(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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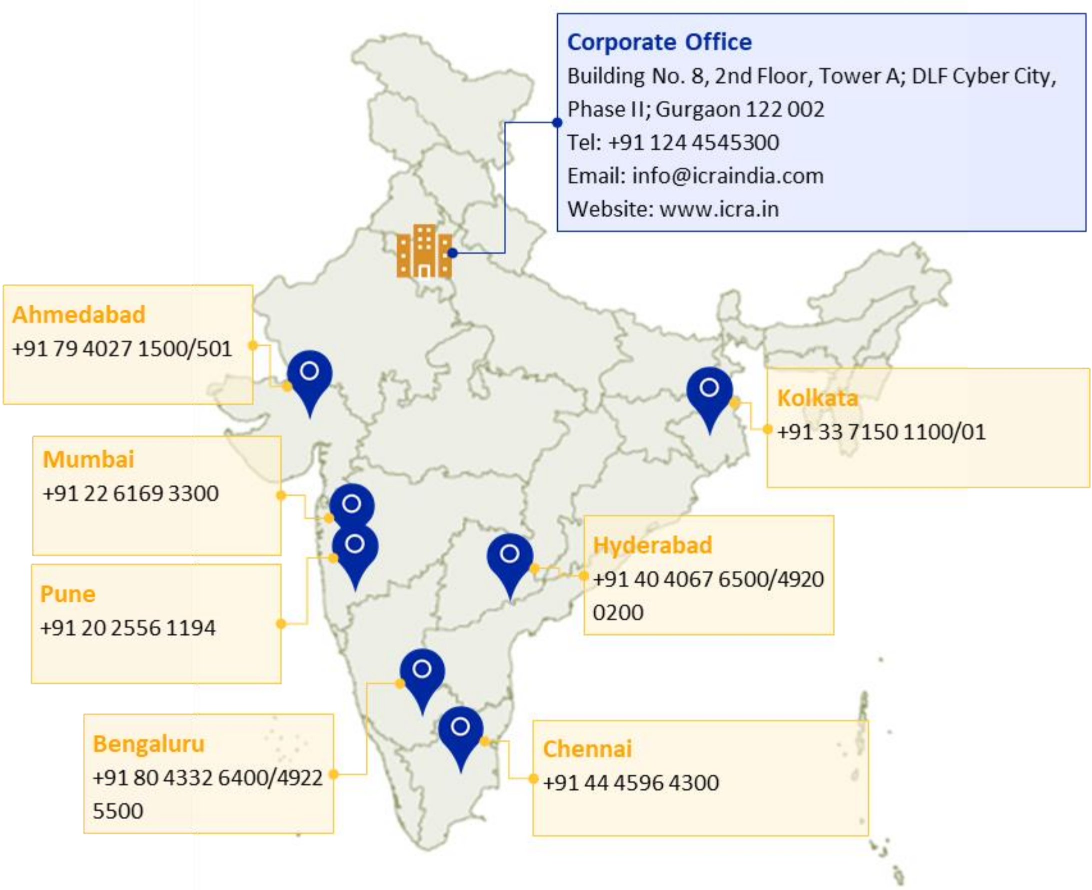

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