

The Kadri Mills (Cbe) Limited

January 17, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-Term/Short-Term Non fund based/Fund based facilities	10.0	[ICRA]A-(Stable)/[ICRA]A2+ assigned
Total	10.0	

*Instrument details in Annexure -1

Rationale

The assigned ratings favourably factor in the long track record of the promoters of The Kadri Mills (Cbe) Limited (KML) in the textile industry and the company's established position in the cotton yarn segment. The company also has significant presence in bedding segment and promotes the product under the brand – Micro Cotton®. The ratings positively consider the company's integrated nature of operations with spinning, weaving, and processing capacities. The rating also positively factors in the company's adequate debt-protection metrics, moderate working capital intensity and moderate debt level.

The ratings, however, are constrained by the KML's relatively moderate scale of operations and the company's limited pricing flexibility due to high fragmentation and intense competition prevailing the cotton yarn industry. The rating is also constrained by KML's financial profile characterised by modest net-worth position. The KML's profitability remain vulnerable to fluctuation in raw material prices and changes in regulatory policies.

Outlook: Stable

The Stable outlook reflects ICRA's expectations that KML will continue to benefit from its established track record in the open-ended spinning segment and in the bedding export segment. The outlook may be revised to Positive if KML is able to improve its scale and profitability resulting in better debt protection metrics and capital structure. The outlook may be revised to Negative if any lower than expected operating income or profitability results in lower than expected cash accrual, or any major debt-funded capex beyond ICRA's estimates weakens the liquidity profile.

Key rating drivers

Credit strengths

Long track record of promoters and established position in Terry-towel industry – Established in 1944, KML is an established manufacturer of cotton yarn in the coarser count. The promoters also have long track record in the textile industry and the managing director – Mr G Kannappan has more than four decades of experience in textile industry.

Comfort derived from being a part of the Sharadha Terry Group - The company's primary promoters are family of the two brother – Mr G Kannappan and Mr G Vijaykumar, who are also the promoters of the company – Sharadha Terry Products limited (STPL). In ICRA's opinion, the commonality in promoters and high strategic importance of the KML to the promoters, would persuade STPL to provide financial support to KML in an unlikely case of any distress. KML also has some operational flexibility by being part of the Group as its bedding products are also market under Micro Cotton® brand and it also procures and sells some products to STPL.

Operations characterized by integrated capacities - KML has integrated capacity with spinning, weaving and captive power generation capabilities. This is likely to support of profitability going forward. As the company serves in both domestic cotton yarn segment and the export of bed linen, any downturn in one of the segments is likely to be mitigated by the presence in the other segment.

Healthy financial risk profile: In FY2018, the company’s capital structure and debt protection metric was healthy on account of moderate debt levels and improved profitability in FY2018. The company’s liquidity profile was healthy as reflected by the moderate utilization of the working capital limits and with modest capex outlay, the company’s liquidity profile is likely to remain stable going forward as well.

Credit challenges

Intense competition in the cotton yarn segment – The cotton yarn segment in India is characterised by high fragmentation and intense competition resulting in limited pricing flexibility for the company. This coupled with volatility in raw material and cotton yarn prices have been detrimental towards achieving higher operating margins. Going forward as well, operating-profit margins remain highly vulnerable to the cyclical in the cotton yarn industry.

Moderate scale of operations – KML financial profile is characterised by moderate scale of operations resulting in limited operational and financial flexibility. The company’s scale and net-worth position had been stagnant in the recent past on account of demerger of the company in beginning of FY2017.

Stagnant growth in export in FY2019 – While the bedding exports had been a key revenue driver in the past, the revenue from the same is expected to decline marginally in FY2019. Increasing the revenue contribution from the apparel exports will be key to improve the KML’s operational profile as the it improves revenue diversification and presently major portion of the revenue is derived from the cotton yarn segment.

Liquidity Position:

The company has comfortable liquidity profile as reflected in the moderate working capital utilization in the past twelve months. With minimal modernisation capex outlay in FY2019 and FY2020, liquidity position is likely to remain comfortable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Apparels Indian Textiles Industry – Spinning
Parent/Group Support	For arriving at ratings, ICRA has taken into consideration the implicit support from the group entity – STPL. In ICRA’s opinion, the commonality in promoters and high strategic importance of the KML to the promoters, would persuade STPL to provide financial support to KML in an unlikely case of any distress. KML also has some operational flexibility by being part of the Group as its bedding products are also market under Micro cotton® brand and it also procures and sells some products to STPL.
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KMLs with its all of the wholly owned subsidiaries.

About the company

The Kadri Mills (Cbe) Limited, incorporated in 1946, has 2 open ended spinning unit and 1 unit having weaving operations and has installed 28,920 spindles, 12544 rotors and 44 looms. The company has also installed 5 Windmills totaling to 3.3 MW and Roof Top Solar Modules totaling to 2 MW. KML had come into fold of the promoter group from 1975 and Mr G Kannappan is the Chairman and the managing Director of the company.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	267.3	303.5
PAT (Rs. crore)	5.6	15.6
OPBDIT/ OI (%)	8.1%	10.3%
RoCE (%)	10.4%	24.8%
Total Debt/ TNW (times)	1.2	0.5
Total Debt/ OPBDIT (times)	2.8	1.1
Interest coverage (times)	3.9	7.4

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on July31, 2018 (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Non-fund based/Fund based facilities	Long-Term/Short-Term	10.0	10.0	January 2019 [ICRA]A-(Stable)/ [ICRA]A2+	-	-	-

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 www.icra.in

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	Non fund based/Fund based facilities	-	-	-	10.0	[ICRA]A-(Stable)/ [ICRA]A2+

Source: KML

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