



SMERA RATINGS LIMITED

# Kaveri Ginning Mills Private Limited (KGMPL)

## Rating Rationale

May 22, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	14.00	SMERA BB-/Stable (Assigned)
Term Loan	5.00	SMERA BB-/Stable (Assigned)
Bill Discounting	2.00	SMERA A4 (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB-'** (read as **SMERA double BB minus**) and a short-term rating of '**SMERA A4'** (read as **SMERA A four**) to the Rs.21.00 crore bank facilities of Kaveri Ginning Mills Private Limited (KGMPL). The outlook is '**Stable**'. The ratings are supported by the company's established operations and experienced management. However, the ratings are constrained by the company's weak financial risk profile. The ratings note that the company's business profile is susceptible to competitive pressures, raw material price volatility and adverse changes in government regulations.

KGMPL, incorporated in 2008, is a Karimnagar-based company engaged in cotton ginning and oil extraction. KGMPL benefits from its experienced management. The promoters of the company have around 20 years of experience in the textile industry. KGMPL's weak financial risk profile is reflected in high gearing (debt-to-capital ratio) of 3.69 times as on March 31, 2014 and low operating profit margin of 2.38 per cent in FY2013-14 (refers to financial year, April 01 to March 31). The company faces intense competition from several players in the textile industry. KGMPL's operations are susceptible to unfavourable changes in minimum support price of cotton.

### Outlook: Stable

SMERA expects KGMPL to maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected profit margins while achieving sustained improvement in working capital management. The outlook may be revised to 'Negative' in case of decline in the company's earnings on account of adverse changes in minimum support price of cotton, or in case of stretch in the company's working capital cycle on account of inventory pile up or delays in debtor realization.

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### About the company

KGMPL, incorporated in 2008, is a Karimnagar-based company promoted by Mr. K Ramesh, Mrs. K. Sujana, Mr. B. Sathyanarayana and Mr. T. Vykuntam. KGMPL undertakes cotton ginning and oil extraction. The company has a ginning unit in Velichala Village, Karimnagar Andhra Pradesh.

For FY2013-14, KGMPL reported profit after tax (PAT) of Rs.0.39 crore on operating income of Rs.127.29 crore, as compared with PAT of Rs.0.28 crore on operating income of Rs.108.22 crore in FY2012-13. The company registered profit before tax of Rs.0.64 crore (provisional) on operating income of Rs.89.99 crore (provisional) in FY2014-15. The company's net worth stood at Rs.5.65 crore (provisional) as on March 31, 2015, as compared with Rs.5.01 crore as on March 31, 2014.

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