SMERA RATINGS LIMITED

Kaveri Ginning Mills Private Limited

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	14.00	SMERA BB-/Stable (Reaffirmed)
Term Loan	5.00	SMERA BB-/Stable (Withdrawn)
Bill Discounting	2.00	SMERA A4+ (Upgraded from SMERA A4)

SMERA has reaffirmed the long term rating of **'SMERA BB-' (read as SMERA double B minus)** and upgraded the short-term rating to **'SMERA A4+' (read as SMERA A four plus)** from 'SMERA A4' (read as SMERA A four) on the abovementioned bank facilities of Kaveri Ginning Mills Private Limited (KGMPL). Further, SMERA has withdrawn the long term rating of **'SMERA BB-' (read as SMERA double B minus)** on the Rs.5.00 crore bank facilities since there are no dues outstanding as certified by the banker. The outlook is **'Stable'**.

The short term rating upgrade is in view of the improvement in the working capital cycle of the company and comfortable cash credit limit utilisation during the last six months.

The ratings continue to draw comfort from the company's experienced management, proximity to cotton growing area and comfortable liquidity position. However, the ratings are constrained by the uneven revenue trend and average 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.

Update

In FY2015-16 (provisional), KGMPL has reported gross sales of Rs.128.79 crore as against Rs.94.49 crore in the previous year, registering a growth of ~36 per cent due to increase in the proportion of trading sales as compared to the previous year. However, the operating margin has declined to 1.67 per cent in FY2015-16 (provisional) vis-à-vis 2.71 per cent in the previous year as the traded goods fetch low margins. 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.

KGMPL benefits from its experienced management. The promoters, Mr. K. Ramesh, Mr. B. Sathyanarayana and Mr. T. Vykuntam have more than two decades of experience in the cotton ginning industry. The company has comfortable working capital cycle days of 32 days for FY2015-16 (provisional) as against 60 in the previous year. Further, the average cash credit limit utilisation stands at ~57 per cent for the six months ended 31 May, 2016. The manufacturing unit of the company is located at Karimnagar district of Andhra Pradesh which is a cotton growing area providing proximity to raw material.

The financial risk profile of the company is average marked by gearing of 3.34 times and interest coverage of 1.91 times for FY2014-15. Further, the gearing stands at 1.87 times and interest coverage of 2.23 times for FY2015-16 (provisional).

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Rating Sensitivity Factors

- Scaling up operations while improving profit margins
- Effective working capital management
- Debt funded capex plan
- Adverse changes in government regulations

Criteria applied to arrive at the ratings

- Manufacturing Entities
- Trading Entities

Outlook-Stable

SMERA believes that KGMPL will continue to maintain a stable outlook and benefit over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if the company reports significant revenue growth while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of a decline in KGMPL's revenue or profitability, or stretch in its working capital cycle resulting in deterioration in its financial risk profile.

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. The company undertakes cotton ginning and oil extraction and is also engaged in the trading of cotton lint at Karimnagar, Andhra Pradesh.

In FY2014-15, KGMPL reported profit after tax (PAT) of Rs.0.70 crore on operating income of Rs.94.49 crore as compared to PAT of Rs.0.39 crore on operating income of Rs.125.09 crore in the previous year. Further, the company reported profit before tax of Rs.0.88 crore on operating income of Rs.128.79 crore for FY2015-16 (provisional).

Rating History

Date	Name of the Instruments	Amount (Rs. Crore)	Ratings		Rating/ Outlook
			Long Term	Short Term	
22 May, 2015	Cash Credit	14.00	SMERA BB- (Assigned)	-	Stable
	Term Loan	5.00	SMERA BB- (Assigned)	-	Stable
	Bill Discounting	2.00	-	SMERA A4 (Assigned)	-

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ABOUT SMERA

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