

Press Release

KAVERI GINNING MILLS PRIVATE LIMITED

27 December, 2017



Rating Upgraded

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has upgraded its long-term rating to '**SMERA BB**' (**read as SMERA BB**) on the Rs. 16.00 crore bank facilities and withdrawn the short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 2.00 crore bank facilities of Kaveri Ginning Mills Private Limited. The outlook is '**Stable**'.

The Andhra Pradesh-based Kaveri Ginning Mills Private Limited (KGML) incorporated in 2008 by Mr. K. Ramesh, is engaged in cotton ginning and oil extraction. The company is led by Directors, Mr. K. Ramesh, Mrs. K. Sujana and others.

Key Rating Drivers

Strengths

- **Experienced management**

The Directors, Mr. K. Ramesh, Mrs. K. Sujana, Mr. B. Sathyanarayana, and Mr. T. Vykuntam have more than two decades of experience in the cotton ginning industry and are well supported by a qualified and experienced second line of management.

- **Moderate profitability**

The EBITDA margin displays an uneven but improving trend. It improved to 2.35 percent in FY2017 after a decline to 1.34 percent in FY2016 from 2.71 percent in FY2015. The Profit after tax (PAT) margins stood at 0.89 percent in FY2017 as against 0.46 percent in FY2016.

- **Moderate working capital management**

The company's Gross Current Asset (GCA) days stood at around 92 in FY2017 as against 66 in FY2016 mainly on account of inventory holding of 56 days in FY2017 as against 34 days in FY2016. The debtors days stood at 32 in FY2017 as against 28 in FY2016. The inventory days fluctuate in line with the expected movements in the price of cotton. Further, the cash credit facility has been fully utilised in the last six months ended 31 October, 2017.

Weaknesses

- **Uneven revenue trend**

Revenues have been uneven during the period under study (FY2016-FY2017) due to fluctuations in the availability of cotton. Revenues declined from Rs.131.42 crore in FY2016 to Rs. 96.93 crore in FY2017. The company initiated sales to export markets in 2016 while its business was confined to domestic markets in FY2017.

Average financial risk profile

The gearing of KGMPL deteriorated to 2.89 times as on 31 March, 2017 from 1.96 times as on 31 March, 2016. This is due to increase in working capital borrowings from Rs.11.41 crore in FY2016 to Rs.19.30 crore in FY2017. However, the interest coverage ratio (ICR) improved marginally to 2.76 times in FY2017 from 2.22 times in FY2016. The improvement in coverage indicators is in tune with improved operating profit margin. The tangible net worth has been moderate at Rs.6.68 crore as on 31 March, 2017 compared to Rs. 5.82 crore as on 31 March, 2016.

- **Volatility in raw material prices and agro climatic risks**

The ratings continue to be constrained by agro climatic risks as the primary raw material, raw cotton, is a seasonal crop and production is highly dependent upon the monsoon. The company is resultantly exposed to fluctuations in raw material prices of cotton. Cotton prices are regulated by the government which assigns a MSP (Minimum Support Price). Adverse movements in MSP impact profitability.

- **High competitive intensity**

The company operates in an industry characterised by intense competition from organised as well as unorganised players with low entry barriers.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the company.

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	96.93	131.42	94.49
EBITDA	Rs. Cr.	2.28	1.76	2.56
PAT	Rs. Cr.	0.87	0.61	0.70
EBITDA Margin	(%)	2.35	1.34	2.71
PAT Margin	(%)	0.89	0.46	0.74
ROCE	(%)	10.51	9.76	22.23
Total Debt/Tangible Net Worth	Times	2.89	1.96	3.34
PBDIT/Interest	Times	2.76	2.22	1.91
Total Debt/PBDIT	Times	7.47	5.07	6.20
Gross Current Assets (Days)	Days	92	66	84

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
20-Aug, 2016	Cash Credit	Long Term	INR 14	SMERA BB- / Stable (Reaffirmed)
	Term Loan	Long Term	INR 5	SMERA BB- / Stable (Withdrawn)
	Bills Discounting	Short Term	INR 2	SMERA A4+ (Upgraded)
22-May, 2015	Term Loan	Long Term	INR 5	SMERA BB- / Stable (Assigned)
	Cash Credit	Long Term	INR 14	SMERA BB- / Stable Assigned)
	Bills Discounting	Short Term	INR 2	SMERA A4 (Assigned)

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	SMERA BB / Stable (Upgraded)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+ (Withdrawn)

Contacts

Analytical	Rating Desk
Vinayak Nayak Head - Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Leena Gupta Analyst - Rating Operations Tel: 022-67141172 leena.gupta@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smerra.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smerra.in) for the latest information on any instrument rated by SMERA