

Press Release

Kaveri Ginning Mills Private Limited

December 29, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 16.00 crore bank facilities of Kaveri Ginning Mills Private Limited (KGPL). The outlook is '**Stable**'.

KGPL, based at Andhra Pradesh was incorporated in 2008 by Mr. K. Ramesh, Mrs. K. Sujana and others. The company is engaged in cotton ginning and oil extraction.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of KGPL for arriving at the rating.

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. The management is well supported by a qualified and experienced second line of management. The extensive experience of promoters has helped company in establishing longstanding relationship with its customers and suppliers.

- **Comfortable working capital cycle**

KGPL has comfortable working capital cycle marked by low Gross Current Asset (GCA) days of 81 days in FY2018 which has improved from 92 days in 2017. The improvement in GCA days is mainly on account of decrease in inventory holding days to 36 in FY2018 from previous of 92 days in FY2017. However, the cash credit facility has been fully utilised in the last six months ended 30 November, 2018.

Weaknesses

- **Average financial risk profile**

The financial risk profile of KGML stood average marked by net worth of Rs.8.55 crore as on 31 March, 2018 (includes unsecured loan of Rs.0.98 crore) as compared to Rs.6.68 crore as on 31 March, 2017. The gearing (debt to equity) stood at 1.98 times as on 31 March, 2018 as compared to 2.89 times as on 31 March, 2017. The interest coverage ratio (ICR) has marginally declined to 2.01 times in FY2018 from 2.76 times in FY2017. TOL/TNW stood at 2.52 times in FY2018 as compared to 3.28 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 1.74 times in FY2018.

- **High competition and volatility in raw material prices**

The company operates in textile industry which is highly competitive and marked by presence of large number of unorganised players. The main raw material used is cotton, prices of which is highly fluctuating and depends upon the monsoon. The company is resultantly exposed to fluctuations in raw material prices of cotton. Further, prices of cotton are regulated by the government by Minimum Support Price (MSP) and any adverse moments in MSP will have impact on margins.

Outlook: Stable

Acuité believes KGPL 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 improvement in revenue while improving its profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profitability or stretch in its working capital cycle, resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	117.14	96.93	131.42
EBITDA	Rs. Cr.	2.49	2.28	1.76
PAT	Rs. Cr.	0.88	0.87	0.60
EBITDA Margin	(%)	2.12	2.35	1.34
PAT Margin	(%)	0.75	0.89	0.46
ROCE	(%)	11.48	10.51	22.46
Total Debt/Tangible Net Worth	Times	1.98	2.89	1.96
PBDIT/Interest	Times	2.01	2.76	2.22
Total Debt/PBDIT	Times	5.18	7.47	5.07
Gross Current Assets (Days)	Days	81	92	66

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
27-Dec-2017	Cash Credit	Long Term	16.00	ACUITE BB / Stable (Upgraded)
	Bills Discounting	Short Term	2.00	ACUITE A4+ (Withdrawn)
20-Aug-2016	Cash Credit	Long Term	14.00	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BB- / Stable (Withdrawn)
	Bills Discounting	Short Term	2.00	ACUITE A4+ (Upgraded)
22-May-2015	Term Loan	Long Term	5.00	ACUITE BB- / Stable (Assigned)
	Cash Credit	Long Term	14.00	ACUITE BB- / Stable (Assigned)
	Bills Discounting	Short Term	2.00	ACUITE 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	ACUITE BB / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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