

June 01, 2015

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	15.00	SMERA B+/Stable (Assigned)
Term Loan	1.80	SMERA B+/Stable (Assigned)

SMERA has assigned rating of '**SMERA B+**' (read as **SMERA single B plus**) to the abovementioned bank facilities of Kshem Kalyani Industries (KKI). The outlook is '**Stable**'. The rating is supported by the firm's experienced management and improved revenues. However, the rating is constrained by the firm's below average financial risk profile and limited operational track record. The rating also takes into account the susceptibility of the firm's profit margins to volatility in raw material prices and changes in government regulations apart from risks related to the firm's debt-funded capex and exposure to intense competition in the cotton ginning industry.

KKI, established in 2002, is a Gujarat-based partnership firm engaged in the business of cotton ginning and extraction of oil. KKI's below-average financial risk profile is reflected in high gearing (debt-to-capital ratio) of 2.46 times as on March 31, 2014 and low interest coverage ratio of 1.24 times in FY2013-14 (refers to financial year, April 01 to March 31). The firm's net profit margin was low at 0.07 per cent in FY2013-14 considering the Minimum Support Price (MSP) fixed by the government leading to adverse movement in cotton prices that impacted profitability. The firm plans to undertake capex of ~Rs 5.00 crore towards expansion by installing new machineries in the existing premises at Patan, Gujarat. The project is likely to be funded through a debt component of Rs.1.80 crore and promoters' funds of Rs.3.20 crore. SMERA believes the capex plan is likely to have an impact on the financial risk profile.

KKI benefits from its experienced management. The partners of the firm have around two decades of experience in the ginning industry. The firm earned revenue of Rs.83.56 crore in FY2013-14 as against Rs.52.71 crore in FY2012-13.

Outlook: Stable

SMERA believes the outlook on KKI's rated facilities will remain stable over the medium term. The firm will continue to benefit from its experienced management and established presence in the textile industry. The outlook may be revised to 'Positive' in case the firm achieves strong growth in revenues and profit margins with significant improvement in financial profile. The outlook maybe revised to 'Negative' in case of deterioration in the firm's financial profile, or in case of steep decline in the firm's revenues and profit margins.

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About the Firm

KKI established in 2002, is a Chennai-based partnership firm promoted by Mr. Bhagvansingh Vaghela and Mr. Khanjibhai Vaghela. The firm is engaged in the business of cotton ginning and extraction of oil and caters to customers in Gujarat.

KKI reported PAT (profit after tax) of Rs.0.06 crore on total income of Rs.83.56 crore for FY2013-14, as against PAT of Rs.0.02 crore on total income of Rs.52.71 crore in the previous year. The firm's capital stood at Rs.4.72 crore as on March 31, 2014, as compared with Rs.4.41 crore a year earlier.

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