

K.M. Cotex Private Limited: Assigned

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	7.00	SMERA B+/Stable (Assigned)

SMERA has assigned rating of '**SMERA B+**' (**read as SMERA B plus**) to the Rs.7.00 crore bank facility of K.M. Cotex Private Limited (K.M.Cotex). The outlook is '**Stable**'.

The rating derives comfort from the experienced management, healthy revenue growth and proximity to raw material sources. However, the rating is constrained by the moderate financial risk profile and thin profit margins. The rating also factors in the highly fragmented cotton ginning industry, volatility in raw material prices and changing government regulations.

KMCPL is engaged in cotton ginning since 2008. The company benefits from its experienced management. Mr. Vipin Jain and Mr. Manoj Jain possess over two decades of experience in the textile industry.

The revenue of KMCPL grew at a compounded annual growth rate (CAGR) of 15.45 per cent from FY2013-14 to FY2015-16. The operating income increased to Rs.53.54 crore in FY2016 as compared to Rs.51.18 crore in FY2015. The ginning unit is located in Indore with close proximity to raw material source.

The company's financial risk profile is moderate marked by low gearing of 0.82 times as on 31 March 2016 (1.41 times as on 31 March 2015) and weak debt protection metrics as seen from interest coverage ratio of 1.32 times for FY2016 as against 1.22 times for FY2015. DCPL's profit margins are susceptible to raw material price fluctuations. The operating margins have shown uneven trend in the past. In FY2014, the EBITDA stood at 2.12 per cent and rose to 2.28 per cent in FY2015 declining to 1.84 per cent in FY2016. The PAT margin was 0.13 per cent in FY2015 which rose to 0.14 per cent in FY2016.

KMCPL operates in a highly fragmented textile industry. Besides, cotton prices are highly regulated by the government through MSP (Minimum Support Price). Any adverse movement of cotton prices further impacts the profitability of the company.

Rating Sensitivity Factors

- Volatility in raw material prices impacting profitability
- Sustainable and substantial growth in revenues
- Improvement in profitability and the financial risk profile

Outlook: Stable

SMERA believes that K.M. Cotex will maintain a stable outlook over the medium term owing to its established presence in the ginning industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while also improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins decline due to fluctuations in raw material prices or deterioration in the financial risk profile.

Criteria to arrive at the rating:

- Manufacturing Entities

About the Company

K. M. Cotex was established in 2008 by Mr. Vipin Jain and Mr. Manoj Jain who possess experience of over two decades in the industry. The Madhya Pradesh-based company is engaged in the ginning and pressing of cotton bales and has an installed manufacturing capacity of 400 cotton bales per day.

In FY2015-16, K.M. Cotex reported net profit of Rs.0.07 crore on operating income of Rs.53.54 crore as against net profit of Rs.0.07 crore on operating income of Rs.51.81 crore in the previous year.

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.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.smera.in) for the latest information on any instrument rated by SMERA.