

Press Release

Krishna Textile Process

May 23, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	SMERA BB- /Outlook: Stable
Short Term Rating	SMERA A4+

**Refer annexure for details*

Rating Rationale

SMERA has reaffirmed long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.13.58 crore bank facilities of Krishna Textile Process. The outlook is '**Stable**'.

Further, SMERA has assigned long term rating of **SMERA BB-** (read as **SMERA double B minus**) on the Rs.0.42 crore bank facilities of Krishna Textile Process.

Krishna Textile Process (KTP), established in 2002 is a partnership firm promoted by Mr. P. Gopalakrishnan and Mr. G. Ramachandran. The firm are engaged in dyeing of polyester, cotton and viscose fabrics. KTP is a part of Sudhama Group, founded in 1978 by Mr. P. Gopalakrishnan. It is engaged in manufacturing of knitted garments and exports the same to European countries.

Key rating drivers

Strengths:

Moderate track record and experienced management:

KTP established in 2002 is promoted by Mr. P. Gopalakrishnan and Mr. G. Ramachandran who collectively possess more than 38 years of experience in the textile industry.

Moderate financial risk profile:

KTP has moderate financial risk profile marked by moderate net worth of Rs.15.61 crore (Provisional) as on 31 March, 2017 compared to Rs.15.53 crore as on 31 March, 2017. The gearing deteriorated to 0.79 times (Provisional) as on 31 March, 2018 from 0.68 times as on 31 March, 2017 due to addition of new term loan but still remains healthy. The total debt of Rs.12.35 crore comprises of term loan of Rs.6.79 crore of term loans from banks, working capital fund of Rs.4.87 crore and unsecured loan of Rs.0.70 crore as on 31 March, 2018. The interest coverage ratio stood at 2.10 times (Provisional) in FY2018 as against 2.16 times in FY2017, this is mainly due to decline in profitability in FY2018. The debt service coverage ratio stood at 1.10 times in FY2018 (Provisional) as against 1.66 times in FY2017. The net cash accruals stood at Rs.1.51 crore (Provisional) as against debt obligation of Rs.1.31 crore in

FY2018. Going forward, SMERA expects the firm to maintain its financial risk profile and improve its network in the absence of major debt funded capex plan.

Weaknesses:

Small scale of operation in highly competitive and fragmented industry:

The firm operates on a small scale with operating income of Rs.15.29 crore for FY2017 as against Rs.13.25 crore for FY2016. However, KTP has achieved revenue of Rs.21.30 crore (Provisional) for FY2018. The industry is fragmented and competitive with presence of large number of unorganised players.

Working capital intensive operation:

The operations of KTP are working capital intensive in nature marked by Gross Current Assets (GCA) days of 221 in FY2017 compared to 302 in FY2016. The GCA days are high on account of stretched debtor days and high inventory holding period. The debtor and inventory stood 104 days and 84 days in FY2018 as against 151 days and 103 days in FY2017, respectively. Further, the average cash credit utilisation for the last six months ending 30 April, 2018 is 90.41 percent.

Partnership constitution:

KTP being a partnership firm is susceptible to the risk of withdrawal of capital at will.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Krishna Textile Process to arrive at the rating.

Outlook – Stable

SMERA believes that KTP will continue to maintain a 'Stable' outlook over the medium term on account of the firms experienced management. The outlook may be revised to 'Positive' in case the firm registers substantial increase in revenue or improvement in financial risk profile on account of effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in revenue or significant deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.30	15.29	13.25
EBITDA	Rs. Cr.	2.71	2.20	1.99
PAT	Rs. Cr.	0.36	0.52	0.21
EBITDA Margin	(%)	12.73	14.37	15.06
PAT Margin	(%)	1.70	3.40	1.55
ROCE	(%)	6.39	7.32	4.86
Total Debt/Tangible Net Worth	Times	0.79	0.68	0.32
PBDIT/Interest	Times	2.10	2.16	3.42
Total Debt/PBDIT	Times	4.30	4.58	2.02
Gross Current Assets (Days)	Days	221	302	270

Status of non-cooperation with previous CRA (if applicable): None

Any other information: Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument:

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
01-Mar-2017	Cash Credit	Long Term	3.00	SMERA BB- / Stable (Assigned)
	Term Loans	Long Term	0.75	SMERA BB- / Stable (Assigned)
	Term Loans	Long Term	6.31	SMERA BB- / Stable (Assigned)
	Standby Line of Credit	Short Term	0.15	SMERA A4+ (Assigned)
	Bank Guarantee	Short Term	2.25	SMERA A4+ (Assigned)
	Proposed Bank Facility	Long Term	1.54	SMERA BB- / Stable (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	4.50*	SMERA BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.44	SMERA BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.42	SMERA BB- / Stable (Assigned)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.40	SMERA A4+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.51	SMERA A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.73	SMERA BB- / Stable (Reaffirmed)

*Includes sub-limit of Letter of credit to extent of Rs. 0.70 crore.

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ABOUT SMERA

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