

Press Release

K K Balusamy And Co

August 16, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs. 12.00 crore bank facilities of K K Balusamy And Co. The outlook is '**Stable**'.

K K Balusamy and Co (KKB) established in 1961 is a Tamil Nadu-based proprietorship firm led by Mr Balusamy. The firm is engaged in the manufacturing of dhotis and trading of bedspreads, towels, cotton shirting among others at Erode. The firm procures cotton yarn from Tirupur and Coimbatore and outsources its weaving, dyeing, printing activities to local players. It caters to clients across India.

Key Rating Drivers

Strengths

- Established track record of operations, experienced management**

The day-to-day operations are managed by Mr K K Balusamy who possesses more than four decades of experience in the textile sector.

- Improvement in profit margins**

The operating margin improved to 8.32 percent for FY2016-17 (Provisional) compared to 6.20 percent in FY2015-16 on account of decline in raw material prices. Further, the net profit margins improved to 1.77 percent in FY2016-17 (Provisional) from 1.31 percent in FY2015-16. However, the margins are susceptible to volatility in raw material prices (yarn).

Weaknesses

- Stagnant revenue**

The firm operates on a modest scale with stagnant revenue in FY2016-17 (Provisional) at Rs.23.25 crore compared to Rs.23.50 crore in FY2015-16 and Rs.25.98 crore in FY2014-15. This is on account of fewer orders. Further, the firm achieved operating income of Rs.6.25 crore from April 2017 - June 2017. The firm operates in a highly fragmented and competitive textile industry with several organised and unorganised players limiting its bargaining power with customers.

- Moderate financial risk profile**

KKB has moderate financial risk profile marked by tangible net worth of Rs. 8.20 crore as on 31 March, 2017 (Provisional) compared to Rs. 8.50 crore as on 31 March, 2016. The net worth declined on account of capital withdrawals. The gearing stood at 1.65 times as on 31 March, 2017 (Provisional) as against 1.46 times as on 31 March, 2016. The firm has availed of unsecured loans from Arun Mills (sister concern) of Rs.1.72 crore in FY2016-17 (Provisional) and Rs.2.18 crore in FY2015-16. The Interest coverage ratio (ICR) stood at 1.56 times in FY2016-17 (Provisional) and 1.46 times in FY2015-16. The NCA/TD (Net cash accruals to Tangible net worth) stood low at 0.05 times in FY2016-17 (Provisional).

- Working capital intensive operations**

KKB's operations are working capital intensive, as reflected by GCA (Gross current assets) days of 316 in FY2016-17 (Provisional) compared to 292 days in FY2015-16. This is on account of high debtors' receivable of 207 days in FY2016-17 (Provisional) and 193 days in FY2015-16. Further the working capital facilities have been fully utilised.

• Proprietorship constitution

KKB's financial risk profile is susceptible to the inherent risk of capital withdrawal considering the proprietorship constitution of the firm. There have been capital withdrawals in FY2016-17 (Provisional) and FY2015-16.

Analytical Approach

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

Outlook: Stable

SMERA believes that the outlook on KKB will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of further increase in its scale of operations while registering improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), KKB reported net profit of Rs.0.41 crore on operating income of Rs.23.25 crore compared to net profit of Rs.0.31 crore on operating income of Rs.23.50 crore in the previous year. The net worth stood at Rs. 8.20 crore as on 31 March, 2017 (Provisional) as against Rs. 8.50 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA B+ / Stable

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