

Press Release

K R SOLVENT

22 March, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 crore
Long Term Rating	SMERA BB+/ Stable
Short Term Rating	SMERA A4+

**Refer annexure for details*

SMERA has assigned long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 20.00 crore bank facilities of K R Solvent (KRS). The outlook is '**Stable**'.

K R Solvent, a partnership firm was established in 2012 with Mr. Husenali Yusufali Narsinh, Ms. Minajbanu Husenali Narsinh, and Mr. Mohamedhasanain Husenali Narsinh. The firm is engaged in manufacturing of cotton linter, cotton seed meal, cotton seed hulk, cotton seed oil which is basically a by-product received from its group companies. The final products are exported to the extent of 50 per cent to Korea, Egypt Oman, Thailand and a few more.

MGPPL was incorporated in the year 1995. The company is engaged in manufacturing and trading of cotton bales. The installed capacity is 48 machines producing 400 bales every day utilized 100 per cent. Apart from selling 50 per cent of its produce to its group company Sustainable Spinning and Commodities Private Limited it exports and sells domestically.

SSCPL was incorporated in the year 2012. At present, the directors are Mr. Mohamedhasanain Husenali Narsinh, Ms. Minajbanu Husenali Narsinh, Mr. Husenali Yusufali Narsinh, Ms. Aarzooben Mohammadali Narsinh, and Ms. Fatema Mohammadhasnein Narsinh. The company is engaged in manufacturing of cotton yarns with an installed capacity of 44000 spindles producing 25 MT per day. The utilized capacity varies between 22-25 MT per day due to production of various counts of yarns, i.e., 30, 34, 36, and 40 It procures 50 per cent of cotton bales from its group company Milan Ginning Pressing Private Limited (MGPPL) and the rest is procured from other local ginning players in Gujarat. The company exports ~80 per cent of its production to countries like Europe, Bangladesh, China, and a few more.

SMERA has consolidated the business and financial risk profiles of Sustainable Spinning and Commodities Private Limited (SSCPL), Milan Ginning Pressing Private Limited (MGPPL) and K R Solvent (KRS) together referred to as the 'Milan Group' (MG). The consolidation is in view of the common management, strong operational and financial linkages between the entities.

Key rating drivers

Strengths

Experienced Management and Established Track Record

Incorporated in 1995, MGPPL is in the business of manufacturing and trading of cotton bales over two decades. MGPPL is currently headed by Mr. Mohamedhasanain Husenali Narsinh, Ms. Minajbanu Husenali Narsinh, Mr. Yusufali Khusalbhai Narsinh, Mr. Husenali Yusufali Narsinh, Ms. Aarzooben Mohmmadali Narsinh, and Ms. Fatema Mohmadhasnein Narsinh. The company has an established track record of 23 years and has expert team of management with a long experience in textile industry. The quality of cotton that the company export is as per international standard.

Reputed Clientele with wide geographic diversification

Over the years, the management has been able to establish long term relations with reputed players in the industry. The firm exports to various countries and is one of the leading ginning and pressing company of India. Moreover, SSCPL caters to international clients like H&M, Marks & Spencer, Nike and enjoys a long standing relation with them due to their focus on quality. The group is involved in export business in countries like Bangladesh, China, Europe, Egypt and many more countries.

Healthy Financial Risk Profile

The healthy financial risk profile is marked by healthy network, modest gearing and comfortable debt protection measures. The network stood at Rs 75.35 crore as on 31 March, 2017 as compared to Rs. 44.26 crore as on 31 March, 2016. The debt equity stands at 1.51 in FY2017 times as compared to 2.26 in the previous year. Moreover, the Net Cash Accruals to Total Debt (NCA/TD) stood at 0.14 times while Debt Service Coverage (DSCR) stood at 1.90 times as on March 31, 2017. The Interest Coverage Ratio stood at 2.60 times in FY2017 as compared to 2.62 times in FY2016.

Proximity to Raw materials

The main raw material is raw cotton. As far as availability of cotton is concerned, Gujarat has remained the top cotton producing state. Promoters know the every aspect & the areas from where raw material is being procured. So there is no difficulty in the procuring the raw materials for the project. The management procures raw materials from the local farmers of Gujarat.

Weaknesses

Susceptibility of profitability to fluctuations in raw material prices

MG is exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets. SMERA believes that MG's ability to pass on increase in cotton prices to the end customer shall be critical towards maintaining its credit risk profile. Adverse movements in prices on account of global demand- supply mismatches may result in downward pressure MG's profitability margins over the near to medium term.

Working capital Intensive

The company has working capital intensity with gross current asset (GCA) of 196 days in FY2017 which mainly constitutes of inventory holding of 69 days and debtors of 68 days in FY2017. The high debtor days are due to the fact that the group deals with a large number of customers both domestic and export and the inventory is high due to the seasonality in cotton market.

Highly competitive and fragmented industry

The company operates in a highly competitive textile industry with several organized and unorganized players which limits the bargaining power of MG group.

Analytical approach:

SMERA has consolidated the business and financial risk profiles of Sustainable Spinning and Commodities Private Limited (SSCPL), Milan Ginning Pressing Private Limited (MGPPPL) and K R Solvent (KRS) together referred to as the 'Milan Group' (MG). The consolidation is in view of the common management, strong operational and financial linkages between the entities. However SMERA has assigned a differential rating for the three company/firm on the basis of their credit profiles.

Outlook: Stable

SMERA believes that MG will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company achieves efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration lengthening of the working capital cycle.

About the Rated Entities- Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	306.19	291.09	365.80
EBITDA	Rs. Cr.	21.44	21.78	15.06
PAT	Rs. Cr.	4.61	3.55	(4.09)
EBITDA Margin	(%)	7.00	7.48	4.12
PAT Margin	(%)	1.51	1.22	(1.12)
ROCE	(%)	7.27	8.36	10.02
Total Debt/Tangible Net Worth	Times	1.51	2.26	2.20
PBDIT/Interest	Times	2.60	2.62	2.66
Total Debt/PBDIT	Times	5.10	4.47	5.89
Gross Current Assets (Days)	Days	196	108	83

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing entities- <https://www.smera.in/criteria-services.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>

Status of non-cooperation with previous CRA (if applicable): On 24th November 2017 Brickwork Ratings India Pvt. Ltd. has migrated K R Solvent (KRS) Long-Term and Short Term Issuer Rating to the non-cooperating category.

Rating History for the last three years:

None

*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	NA	NA	NA	13.00	SMERA BB+/Stable
Term Loan 1	NA	NA	NA	0.58	SMERA BB+/Stable
Term Loan 2	NA	NA	NA	2.01	SMERA BB+/Stable
Bank Guarantee	NA	NA	NA	0.42	SMERA A4+
Proposed	NA	NA	NA	3.99	SMERA BB+/Stable

Contacts:

Analytical	Rating Desk
<p>Suman Chowdhury President – SMERA Bond Ratings Tel: +91-22-6714 1107 suman.chowdhury@smera.in</p> <p>Debalina Maity, Rating Analyst, Tel: +91-22-6714 1363 Email: pawan.punmaji@smera.in</p>	<p>VarshaBist Manager- Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in</p>

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.