

Press Release

Kallam Brothers Cottons Private Limited

18 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 82.65 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 82.65 crore bank facilities of Kallam Brothers Cottons Private Limited (KBCPL). The outlook is '**Stable**'.

Kallam Brothers Cottons Private Limited is a Guntur based company incorporated in the year 2003 by Mr. Nagi Reddy and his family. It is engaged in cotton ginning and manufacturing of yarn. Of the total revenues in FY2017, ginning division contributed around 28 percent, spinning division contributed 71 per cent and remaining is from power division.

The company's ginning and spinning division is located at Dhulipalla Village, Guntur. It has 24 gins and 33,840 spindles to produce yarn, count ranging from 16s to 40s. They have an operating wind mill with an installed power generation capacity of one mega-watt (MW), and the same is supplied to the electricity board.

List of key rating drivers and their detailed description

Strengths:

Experienced management, long track record of operations

KBCPL is engaged in the cotton ginning and spinning sector for more than a one decade. The company is promoted by Mr. Nagi Reddy and his family who possess more than two decades of experience in the textile industry. The extensive industry experience of the promoters has enabled them to establish a healthy relationship with various customers and suppliers.

Moderate growth in revenues and moderate financial risk profile

KBCPL reported revenue growth with compounded annual growth rate (CAGR) of 14.00 percent from Rs. 121.43 crore in FY2014 to Rs. 180.00 crore in FY2017. The same was due to capital expenditure in the spinning division. During 11MFY2018, the company has generated revenues of Rs. 166 crore (Provisional Figures).

Financial risk profile of the company is moderate marked by moderate net worth of Rs.51.43 crore as on 31 March, 2017 (Net worth includes quasi equity of Rs. 23.63 crore). Increase in net worth is due to retention of profits. Debt/Equity ratio is moderate at 1.60 times as on 31 March, 2017.. Of the total debt of Rs. 82.28 crore on 31 March, 2017, long term debt constitute Rs. 34.92 crore, short term debt of Rs. 47.37 crore. Interest coverage ratio (ICR) is moderate at 1.88 times in FY2017. Debt service coverage ratio is modest at 1.17 times in FY2017 on account of just sufficient accruals to debt obligations. SMERA believes that financial risk profile continues to be at moderate on account of modest accretion to reserves and absence of large debt-funded capex plans over the medium term.

Weaknesses

Susceptibility of profitability to volatility in raw material prices

The prices of cotton are highly dependent on agro-climatic conditions and the purchase price of cotton depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. SMERA believes that KBCPL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic market and the experienced management.

Intense competition in the textile industry

The company is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organised and unorganised players in the industry.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Kallam Brothers Cottons Private Limited to arrive at the rating.

Outlook – Stable

SMERA believes that the KBCPL will maintain stable outlook in the medium term on account of the established presence and extensive experience of the promoters in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected generation of cash accruals or stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	180	161.92	146.62
EBITDA	Rs. Cr.	16.72	13.62	14.32
PAT	Rs. Cr.	3.88	2.44	3.65
EBITDA Margin (%)	(%)	9.29	8.41	9.77
PAT Margin (%)	(%)	2.15	1.50	2.49
ROCE (%)	(%)	11.31	9.76	21.16
Total Debt/Tangible Net Worth	Times	1.60	1.70	1.51
PBDIT/Interest	Times	1.88	1.51	1.70
Total Debt/PBDIT	Times	4.35	5.09	4.23
Gross Current Assets (Days)	Days	145	149	136

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of 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): Not Applicable

Any other information: Not Applicable

Rating History for the 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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA BBB-/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	28.15	SMERA BBB-/Stable
SLC	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA BBB-/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA BBB-/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A3

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ABOUT SMERA

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