

Press Release

Kallam Brothers Cottons Private Limited

August 07, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 91.15 Cr. (Enhanced from Rs.82.65 crore)
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

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

Acuite has assigned long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.8.50 crore bank facilities of Kallam Brothers Cottons Private Limited. The outlook is '**Stable**'.

Kallam Brothers Cottons Private Limited (KBCPL) 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 FY2018, 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 (Andhra Pradesh). 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.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

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

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by moderate gearing (Debt to Equity ratio), debt protection metrics and comfortable total outside liabilities to total net worth (TOL/TNW). Gearing is moderate at 1.35 times as on 31 March, 2018, against 1.60 times as on 31 March, 2017. Of the total debt of Rs.78.37 crore on 31 March, 2018, long term debt constitute Rs.29.82 crore, short term debt of Rs. 46.87 crore and unsecured loans of Rs1.69 crore. Total net worth as on 31 March, 2018 is Rs.58.14 crore (Includes quasi equity of Rs.23.63 crore). Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.34 times and 0.13 times respectively in FY2018. The debt service coverage ratio is moderate at 1.39 times in FY2018 as against 1.17 times in FY2017. TOL/TNW is comfortable at 1.72 times as on 31 March, 2018 against 1.88 times as on 31 March, 2017. Acuite believes that the financial risk profile continues to be moderate on account of modest accretion to reserves and absence of large debt-funded capex plans over the medium term.

Weaknesses

• Working capital intensive operations

The operations of the company are working capital intensive marked by high Gross Current Assets (GCA) days of 175 days in FY2018 as against 145 days in FY2017. This is mainly due to high inventory holding days which stood at 125 days in FY2018 as against 108 days in FY2017. The company maintains four months inventory for regular supply of products to customers and on account of seasonal availability of cotton. Debtors' realization is healthy and stood within one month from last three years through FY2018. Creditor's days stood around 34 days in FY2018 as against 14 days in FY2017. High GCA resulted in high utilisation of its bank lines at 85-90 per cent over six months through, 2018. Acuite believes that, the operations continue to be working capital intensive over the medium term due to the seasonal availability of the material, and production cycle. Acuite believes, as operations are expected to be working capital intensive on account of inventory maintenance of around four months.

• 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. Acuite 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.

• Competitive and fragmented 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

Acuite has considered the standalone business and financial risk profiles of the KBCPL to arrive at this rating.

Outlook: Stable

Acuite 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 leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	175.52	180.00	161.92
EBITDA	Rs. Cr.	18.64	16.72	13.62
PAT	Rs. Cr.	6.71	3.88	2.44
EBITDA Margin	(%)	10.62	9.29	8.41
PAT Margin	(%)	3.82	2.15	1.50
ROCE	(%)	11.14	11.31	9.76
Total Debt/Tangible Net Worth	Times	1.35	1.60	1.70
PBDIT/Interest	Times	2.34	1.88	1.51
Total Debt/PBDIT	Times	4.09	4.35	5.09
Gross Current Assets (Days)	Days	175	145	149

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

CRISIL, vide its press release dated July 20, 2018 had denoted the rating of Kallam Brothers Cottons Private Limited as 'CRISIL BB/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18 April, 2018	Cash Credit	Long Term	30.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	28.15	ACUITE BBB-/Stable (Assigned)
	SLC	Long Term	4.50	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (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	30.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	28.15	ACUITE BBB- / Stable (Reaffirmed)
SLC	Not Applicable	Not Applicable	Not Applicable	6.00 (Enhanced from Rs.4.50 crore)	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB- / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00 (Enhanced from Rs.2.00 crore)	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- / Stable (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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