

November 15, 2013

Proposed Facilities	Amount (Rs. Crore)	Rating
Term Loan	7.50	SMERA B / Stable (Assigned)
Cash Credit	5.00	SMERA B / Stable (Assigned)

SMERA has assigned a rating of '**SMERA B**' (**read as SMERA Single B**) to the Rs.12.50 crore proposed long-term bank facilities of Krishnaa Cotton Mills (KCM). The outlook is '**Stable**'. The rating is constrained by the project execution risk associated with the firm's upcoming ginning unit. The rating is also constrained by the intense competition prevalent in the cotton ginning business. However, the rating derives comfort from the firm's location-specific advantage arising due to proximity of the factory to raw material sourcing area.

KCM, established in March 2013, is a Hyderabad-based partnership firm established to undertake the business of cotton ginning. KCM is currently setting up a ginning unit (in Chityal, Andhra Pradesh) with an installed capacity of 15,552 MTPA. The firm is exposed to project execution risk as the machinery is yet to be installed. The commercial production is likely to commence in January 2014.

KCM's partners do not have experience in the cotton ginning business. However, the firm plans to employ experienced personnel for managing the ginning operations. KCM's factory unit is located in proximity to cotton growing areas in Chityal, Andhra Pradesh — a top cotton producing state in India. Moreover, KCM's partners own ~60 acres of agricultural land (in Chityal, Andhra Pradesh), which is used for cultivating cotton.

### Outlook: Stable

SMERA believes the outlook on KCM's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' if the firm is successful in implementing the project according to the scheduled timeline while generating adequate cash flows for debt servicing. Conversely, the outlook may be revised to 'Negative' in case of delays in project execution.

### About the firm

KCM is a partnership firm established in March 2013 to undertake the business of cotton ginning. KCM is currently setting up a ginning unit with an installed capacity of 15,552 MTPA in Chityal, Andhra Pradesh. The total project cost is estimated at Rs.10.38 crore, which is likely to be funded through a bank loan of Rs.7.50 crore (yet to be sanctioned) and promoter's funds of Rs.2.88 crore.

KCM has an administrative office in Hyderabad, Andhra Pradesh.

Mr. K. Krishna Reddy and Mr. K. Bhupal Reddy, Partners of KCM, also own M R Constructions — a firm engaged in construction subcontracting.

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