

**December 06, 2013**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	34.00*	SMERA BB-/ Stable (Assigned)
Warehousing Receipt	20.00	SMERA BB-/ Stable (Assigned)
Credit Exposure Limit	2.00	SMERA A4 (Assigned)

*Interchangeable with EPC/FBD/PCFC/EBR

SMERA has assigned a rating of '**SMERA BB-**' (read as **SMERA Double B Minus**) to the Rs.54.00 crore long-term bank facilities and '**SMERA A4**' (read as **SMERA A Four**) to the Rs.2.00 crore short-term bank facilities of Kokila Cotton Export Limited (KCEL). The outlook is '**Stable**'. The ratings are constrained by the company's weak financial risk profile marked by low net worth, high leverage, weak coverage indicators and low operating profit margin. The ratings are further constrained by the company's exposure to volatility in cotton and castor oil prices, adverse changes in regulatory environment and intense competition prevalent in the commodity trading business. However, the ratings are supported by the company's experienced management and location-specific advantage. The ratings derive comfort from the group entity support available to the company.

KCEL, established in 2007, is an Ahmedabad-based company engaged in trading of cotton bales and castor oil procured from associate entities. KCEL caters to customers in the domestic and international markets. The company has a low net worth of Rs.11.18 crore as on March 31, 2013. KCEL has weak debt protection metrics with high overall leverage at 5.90 times as on March 31, 2013 and weak interest coverage ratio of 1.11 times in FY2012-13 (refers to financial year, April 01 to March 31). The company's operating profit margin is low at 1.17 per cent in FY2012-13. KCEL's inventory holding period extends to ~50 days, which exposes the company to the risk of volatility in inventory prices. KCEL is susceptible to adverse changes in the regulatory environment. The company is also exposed to the intense competition prevalent in the commodity trading industry, which is characterised by the presence of several players in the unorganised sector.

KCEL is a part of the Kokila Group, founded by Mr. Prahlad Patel — an entrepreneur with over three decades of experience in the cotton trading industry. KCEL is likely to benefit from its operational linkages with its group entities. The company also has a location-specific advantage arising from proximity to raw material sourcing area in Ahmedabad, Gujarat — a major cotton producing state in India.

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**Outlook: Stable**

SMERA believes the outlook on KCEL's rated facilities will remain stable over the medium term on account of the company's experienced management and moderate scale of operations. The outlook may be revised to 'Positive' in case the company improves its overall leverage or scales up its operations while improving profitability. Conversely, the outlook may be revised to 'Negative' in case the company borrows additional working capital funds, which may lead to further deterioration in the debt protection metrics.

About the company

KCEL, incorporated in 2007, is an Ahmedabad-based company promoted by Mr. Prahlad Patel, Mr. Navnit Patel and Mr. Alpesh Patel. KCEL is mainly engaged in trading of cotton bales. The company is also involved in trading of castor oil. The overall operations of the company are managed by Mr. Navnit Patel, Mr. Alpesh Patel and by Mr. Jatin Patel.

For FY2012-13, KCEL reported PAT of Rs.0.66 crore on revenues of Rs.548.70 crore as compared with PAT of Rs.0.68 crore on revenues of Rs. 888.77 crore for FY2011-12. KCEL's net worth stood at Rs.11.18 crore as on March 31, 2013 as compared with Rs.6.52 crore a year earlier.

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