



SMERA RATINGS LIMITED

Kokila Cotton Export Limited (KCEL)

*Rating
Rationale*

February 20, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	34.00*	SMERA B+/Stable (downgraded from SMERA BB-/Stable)
Demand Loan (Warehouse Finance Scheme)	20.00	SMERA B+/Stable (downgraded from SMERA BB-/Stable)
Credit Exposure Limit	2.00	SMERA A4 (Reaffirmed)

**Interchangeable with EPC/FBD/PCFC/EBR*

SMERA has downgraded the long-term rating of Kokila Cotton Export Limited (KCEL) to '**SMERA B+**' (read as **SMERA single B plus**) from '**SMERA BB-**'. The outlook is '**Stable**'. The short-term rating is reaffirmed at '**SMERA A4**' (read as **SMERA A four**). The downgrade is in view of the company's weak financial risk profile and low operating profit margin. The ratings note that the company's financial profile is susceptible to volatility in commodity prices and adverse changes in trade regulations. The ratings are also constrained by the company's exposure to intense competition in the commodity trading business. However, the ratings are supported by the company's experienced management and healthy revenue growth. The ratings also draw comfort from the group support available to the company.

Update

KCEL's net worth is low at Rs.12.90 crore as on March 31, 2014. The company has weak debt protection metrics marked by high overall leverage of 4.00 times as on March 31, 2014 and low interest coverage ratio of 1.18 times in FY2013-14 (refers to financial year, April 01 to March 31). KCEL's operating profit margin declined from 1.17 per cent in FY2012-13 to 0.88 per cent in FY2013-14. The company is exposed to intense competition in the commodity trading business.

KCEL continues to benefit from its experienced management. The company also benefits from the operational and financial support provided by its group entities.

Outlook: Stable

SMERA believes the outlook on KCEL's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers sustained improvement in financial risk profile and profitability. The outlook may be revised to 'Negative' in case of deterioration in the company's debt protection metrics.

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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 a part of the Kokila Group. The company is engaged in trading of cotton bales and castor oil. KCEL caters to customers in the domestic and international markets. The company procures material from its group entities.

For FY2013-14, KCEL reported profit after tax (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 in FY2012-13. KCEL's net worth stood at Rs.11.18 crore as on March 31, 2014, as compared with Rs.6.52 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Antony Jose Vice President – Business Development Mid Corporate Tel: +91-22-6714 1191 Cell: +91 9820802479 Email: antony.jose@smera.in	Ashutosh Satsangi Vice President – Operations Tel: +91-22-6714 1107 Email: ashutosh.satsangi@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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