

April 17, 2013 - Mumbai

Facilities / Instruments	Amount (Rs. Crore)	Rating
Working Capital Demand Loan	17.00	SMERA BB/Stable (Assigned)
Bank Guarantee	0.30	SMERA A4+ (Assigned)
Proposed Working Capital Demand Loans	3.00	SMERA BB/Stable (Assigned)

SMERA has assigned ratings of '**SMERA BB**' (read as **SMERA Double B**) and '**SMERA A4+**' (read as **SMERA A Four Plus**) to KK Fibers Limited's (KKFL) Rs.20.30 crore bank facilities. The outlook is '**Stable**'. The ratings are constrained by the below-average financial risk profile and limited scale and working-capital intensive nature of operations. However the ratings derive comfort from KKFL's professionally qualified and experienced management.

KKFL has below-average financial risk profile, marked by low net worth (Rs. 10.8 crore as on March 31, 2012) and average liquidity metrics (low net cash accruals to total debt). Moreover the operating profitability has significantly declined to 3.7 per cent in FY 2011-12 from 10.4 per cent in FY 2010-11 on account of increase in raw material prices. The company, however, does not have any long term debt on its books and also does not have any capex plans over the near term.

KKFL's business risk profile is constrained on account of its small scale of operations in a highly fragmented and intensely competitive textile industry. The company's operations are working capital intensive as evidenced by high receivable days which, in turn, puts pressure on its liquidity (over 98 percent of working-capital utilization in last one year).

KKFL's management is professionally qualified and has around three decades of experience in textile business. The company is currently managed by Mr. Akhil Malhotra and his son Mr. Mayank Malhotra. Further, KKFL's management has a good track record of successfully turning around five dormant/BIFR registered units since 2005. Shiva Texfabs Limited (SMERA BB+/Positive/SMERA A4+) holds 92 per cent stake in KKFL and promoters have extended personal guarantee for the loans taken by the company.

Rating Sensitivity Factors

- Deterioration in operating margin or gearing or debt-protection metrics
- Stress in working capital management
- High debt-funded capital expenditure

Outlook: Stable

SMERA believes that KKFL will continue to benefit over the medium term from the experience of its promoters in the textile business. The outlook may be revised to 'Positive' if the company records a significant growth in revenues with commensurate increase in its profitability resulting improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company undertakes a large debt-funded capex, or if there is a decline in revenues and profitability resulting in deterioration in KKFL's financial risk profile.

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About the company

Incorporated in 2005, KKFL is engaged in manufacturing of Polyester Staple Fiber (PSF) from rPET flakes. It has its manufacturing unit in Kala Amb (Himachal Pradesh) with an installed capacity of 14,000 MTPA. The company was originally promoted by Khanna, Kalra and Jain families. In December, 2009, KKFL was taken over by Shiva Textfabs Limited, the flagship company of the Shiva Group of companies.

For FY 2011-12, KKFL reported a PAT of Rs.0.8 crore on net sales of Rs.91.1 crore as compared to PAT of Rs.4.2 crore on net sales of Rs.61.9 crore for FY 2010-11. For the six months ended September 30, 2012, KKFL reported a PAT of Rs.0.3 crore on net sales of Rs.45.1 crore as compared to a PAT of Rs.1.5 crore on net sales of Rs.40.9 crore for the corresponding period in the previous year.

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