

Rating Rationale

Kamdhenu Cotton and Spinning Mills

12 Oct, 2017

Brickwork Ratings assigns ratings BWR BB-/A4' for the Bank Loan Facilities of Kamdhenu Cotton and Spinning Mills Pvt Ltd.

Brickwork Ratings assigns following rating¹ for the Bank Loan Facilities of **Kamdhenu Cotton and Spinning Mills Pvt Ltd (The Company): -**

Facility	Amount to be Rated (In Crs)	Tenure	Rating Proposed
Fund Based			
CC (Hypothecation)	7.8	Long Term	BWR BB- (Pronounced as BWR Double B Minus) Outlook : Stable
CC(Book Debt) Sublimit of CC	(2.50)		
Term Loan *	16.78		
SLC	0.9	Short Term	BWR A4 (Pronounced as BWR Single A Four)
Non Fund Based			
LC	0.75		
BG (Sublimit of LC)	(0.50)		
Project related BG	0.5		
Amount to be rated	26.73	INR.Twenty Six Crores and Seventy Three Lacs only	

** Including proposed term loan of INR9.00Cr*

¹ Please refer to BWR website www.brickworkratings.com for definition of the rating assigned.

BWR has essentially relied upon audited financial results of **Kamdhenu Cotton and Spinning Mills Pvt Ltd** up to FY17, publicly available information and information provided by the management.

The rating has, inter alia, factored in the established track record of the company along with the promoters' vast experience in the Yarn industry, the company's long-standing relationship with the customers, diverse product offerings and moderate debt leverage ratio and interest coverage ratio..

The ratings is ,however , constrained by stretched liquidity and decline in top line in FY17.

Going forward, the company's ability to increase its scale of operations, improve profitability margins and liquidity position and service debt timely would be the key rating sensitivities.

Key Rating Drivers Credit Strengths

- **Extensive experience of promoters and diversified product profile:** Presence of nearly two decades in the yarn industry has enabled the promoters to establish strong relationship with vendors and customers. Also, clientele is diverse, with no single
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- customer contributing more than 25% to the overall revenue. From FY 2017, the company has started manufacturing cotton yarn on job work basis also which may add to the profitability going forward.
- **Moderate ISCR:** The company is having moderate with ISCR of 2.38X in FY 17 vis-à-vis 2.22 X in FY16.
- **Efficient working capital management :** Though there is spike in Conversion cycle from 27 days in FY16 to 56 days as on March 31, 2017 due to the effect of demonetization yet the same is well under control. With the reduced effect of demonetization, the conversion cycle of the company is poised to return to the normal level

Credit Weakness:

- **Decline in Scale of Operations :** The impact of demonetization is seen on the operations of the company , As per the audited financials of FY17 the sales have declined from INR 48.69Cr to INR 37.15Cr in FY17 and PAT had reduced to INR 0.14Cr as on March 31, 2017 as compared to INR 2.06Cr in FY16. There is improvement in cash flow from operations as well as in operating profit margins of 12.50% in FY17 as compare to 9.96% in FY16.
- **Susceptibility to volatility in raw material prices:** Prices of key raw material polyester which accounts for 78% of total production cost, are volatile in nature as these are linked to crude prices.
- **Stretched Liquidity:** Current Ratio has improved from 0.71 to 0.79 but it is still far below the bench mark level of 1.33. The company need to infuse long term resources to overcome liquidity constraints.

About the Company

Incorporated in 2008 and promoted by Ludhiana-based Dhir and Johar families, KCSM manufactures synthetic yarn (polyester, polyester-blended, and acrylic yarn) on Ring spinning System with installed capacity of 9600 spindles.. The company commenced its Operations in January 2013 and is managed by Mr. Puneet Dhir and Mr. Manav Johar. The manufactured yarn is in the count range of Ne10 to Ne40. The company is also ISO certified.

Company Financial Performance.

Key Financials		
Result Type	31-Mar-2016	31-Mar-2017
	Audited	Audited
Total Operating Income	48.69	37.15
OPBDIT	4.85	4.64
PAT	2.06	0.14
Tangible Net Worth	9.09	9.30
TOL/TNW	1.99	1.61
Current Ratio	0.71	0.79

Rating History for the last three years (including withdrawn/suspended ratings)

Facility	Rating assigned in 2017			Rating History		
	Amount to be Rated (In Crs)	Tenure	Rating Proposed	2016	2015	2014
Fund Based						
CC (Hypothecation)	7.8	Long Term	BWR BB- (Pronounced as BWR Double B Minus) Outlook : Stable	NA	NA	NA
CC(Book Debt) Sublimit of CC	(2.50)					
Term Loan *	16.78					
SLC	0.9	Short Term	BWR A4 (Pronounced as BWR Single A Four)	NA	NA	NA
Non Fund Based						
LC	0.75					
BG (Sublimit of LC)	(0.50)					
Project related BG	0.5					
Amount to be rated	26.73	INR.Twenty Six Crores and Seventy Three Lacs only		NA	NA	NA

* Including proposed term loan of INR9.00Cr

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

Any other information – NIL

Hyperlink/Reference to applicable Criteria

2 [General Criteria](#)

3 [Approach to Financial Ratios](#)

4 [Manufacturing Sector](#)

5 [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA& the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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