

Rating Rationale

Brickwork Ratings assigns 'BWR BBB- (SO)' & 'BWR A3 (SO)' for Kottex Industries Pvt. Ltd.'s Bank Loan Facilities aggregating ₹ 100.43 Cr

Brickwork Ratings has assigned the following **Ratings¹** for Bank Loan facilities of Kottex Industries Pvt. Ltd (**KIPL or 'the Company'**) under Multiple Banking Arrangement:

Facility	Limits (₹Cr)	Tenure	Present Rating
Fund Based	73.37	Long Term	BWR BBB- (SO) [Pronounced BWR Triple B Minus (Structured Obligation)] Outlook: Stable
Cash Credit*	31.00		
Term Loan	42.37		
Non-Fund Based	27.06	Short Term	BWR A3 (SO) [Pronounced BWR A Three (Structured Obligation)]
Letter of Credit*	24.00		
Bank Guarantee	1.30		
Credit Exposure limit	1.76		
Total	100.43	INR One Hundred Crores and Forty Three Lakhs only	

*Fund based (CC) & Non Fund based facilities (LC) are interchangeable to the extent of Rs.15 Cr

BWR has principally relied upon the audited financial results up to FY15 and projected financials and information/ clarifications provided by the company's management. The 'SO' suffix indicates that BWR has factored credit enhancement based on unconditional & irrevocable corporate guarantee of Spectrum Dyes & Chemicals Pvt. Ltd, a Group company.

The rating factors, *inter alia*, wide experience of the promoters in diverse segments of the textile value-chain, favourable location of manufacturing unit, long standing relationship with their customers, growth in operating income and profitability, moderate leverage and debt coverage position and financial closure achieved for expansion project. Corporate guarantee of Spectrum Dyes & Chemicals Pvt. Ltd., also is considered, as indicated above. However, the rating is constrained by the debt backed capex program, and the fact that full production is yet to be achieved. Besides, company's performance also will be impacted by volatility in prices of raw-material, working capital-intensive nature of operations, and high degree of competition in textile industry in and around Surat.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Background

Kottex Industries Pvt Ltd (KIPL) incorporated during June 2007 is promoted by Pratibha group, Surat. The company is into manufacturing of Linen Fabrics from Flax Yarn under the brand name “Linen Leaf” used as fabric for shirting, suiting, dress materials, furnishing etc.

The company has its registered office & manufacturing unit located at Gujarat Eco Textile Park, N.H. No.8, Palsana, Gujarat. Initially KIPL started commercial operations during April 2009. Weaving of fabrics is done currently with an installed capacity of 150 mts/day/loom with 90 rapier looms.

During CFY16 company has implemented the expansion project of second unit at Plot B-6, Gujarat Eco Textile Park, Palsana, Surat for weaving of fabrics & yarn dying. Installed capacity for weaving of fabrics is 150 mts/day/loom with 48 rapier looms and yarn dying at 5000 Kg/month. Cost of the project is Rs. 57.07 Crs, to be funded out of Term Loan of Rs. 39.00 Crs, and Promoters’ Contribution of Rs. 18.07 Crs.

Current status of the expansion project Unit II is as under:

- Commencement of Production started during Oct’2015 wherein Yarn Dying unit being completely installed & fully operational, however weaving of fabric would be operational by Jan’16
- Term Loan is sanctioned and disbursed upto 88% of the sanctioned amount till Oct’2015.

Pratibha Group

Pratibha Group of Industries, Surat, Gujarat, is one of the leading textile house comprising of a number of business units. The Group has entered in to the Synthetic Textile Industry in the year 1982 and has a reputed name in Gujarat over three decades. They have several manufacturing units across diverse businesses such as dyeing & printing and embroidery work of fabrics, manufacturing of dyes & chemicals, spinning of nylon yarn and export of synthetic fabrics. Key Promoters of the group are Mr. Mahendra Kumar Chaudhary & his brother Mr. Pramod Kumar Chaudhary.

Financial Performance:

As per the audited financials for FY15, Kottex has reported gross revenues of ₹ 129.03 Crores and net profit of ₹ 2.09 Crores. The Net worth of the Company stood at ₹ 25.98 Crores. Company has availed Term Loan and Working Capital facilities from SBI and IDBI Bank, and Total Debt : Tangible Networth ratio was at 1.11x.

Company has reported of having achieved revenue of ₹ 67.35 Crores for H1F16.

Guarantor: Spectrum Dyes & Chemicals Pvt Ltd (Spectrum)

Spectrum, incorporated during 1989, is the flagship company of Pratibha group, and is engaged in manufacturing of disperse dyes used in dyeing and printing of polyester fibre / fabric. Manufacturing Unit is located at Palsana, Surat, Gujarat and manufactures around 150 different shades of disperse dyes with installed capacity of 11,250 MTPA as of 31st Mar’2015 with approx 95% capacity utilization.

The company has reported gross revenues of ₹ 360.34 Crores and net profit of ₹ 10.19 Crores with Net worth at ₹ 102.93 Crores for FY15.

Rating Outlook

Going forward, the company's ability to realize the envisaged benefits out of the additional capacity, achieve the projected level of production and sales with profitability, increase the scale of operations and manage risk associated with fluctuation in raw material prices along with the competition will be the key rating sensitivities.

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Annexure – I

Details of the Existing Bank Facilities

Nature of Facility	State Bank of India	IDBI Bank	Total Rated Exposure
	Limits (₹Cr)	Limits (₹Cr)	
Long Term Fund Based	34.37	39.00	73.37
Cash Credit*	31.00	--	31.00
EPC/PCFC	(2.50)	--	(2.50)
Term Loan	--	39.00	39.00
Term Loans	3.37	--	3.37
Short Term Non-Fund Based	26.26	0.80	27.06
Capex LC	--	(16.00)	(16.00)
Bank Guarantee	0.50	0.80	1.30
Letter of Credit (Raw materials)*	24.00	--	24.00
Credit Exposure Limit	1.76	--	1.76
Total	60.63	39.80	100.43

*Fund based CC & Non Fund based LC limits of SBI are interchangeable up to Rs.15 Cr