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Kallam Textiles Limited

February 15, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	335.35 (Enhanced from Rs.15.00 crore)	IVR B+ /Stable (IVR Single B Plus with Stable Outlook)	Assigned	Simple
Short term Bank Facilities	31.00 (Enhanced)	IVR A4 (IVR A Four)	Assigned	Simple
Total	366.35 (Rupees Three Hundred Sixty-Six Crore and Thirty Five Lakh Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Kallam Textiles Limited derives comfort from extensive experience of the promoters in the textile industry along with its well-integrated operations with its own ginning, ring spinning, open end spinning, weaving and dyeing divisions. The ratings also consider its satisfactory financial performance in 9MFY22. However, these rating strengths are partially offset by highly fragmented nature of the industry coupled with intense competition marked by presence of large number of organised and unorganised players, past history of default, susceptibility of profitability to fluctuations in key raw material prices which affects sales realisations. The ratings also note its leveraged capital structure along with weak debt protection metrics and working capital-intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure with improvement in overall gearing to below 2x and/or improvement in debt protection metrics with improvement in interest coverage ratio to over 2x



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- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors

- Decline in operating income and/or profitability impacting the cash accrual
- Moderation in capital structure with overall gearing moderated over 5x and/or moderation in debt protection metrics with moderation in interest coverage to below 1x
- Any substantial stretch in the operating cycle impacting the liquidity of the business.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in the textile industry**

The promoters of KTL, have experience of over three decades in the textile industry. Such an extensive track record of its promoters has helped the company in establishing its operational presence in the domestic as well as export markets over the years.

- **Integrated business operation**

“KTL” is a well-integrated cotton textile unit, with its own ginning, ring spinning, open end spinning, weaving and dyeing divisions. The Company currently operates with 59280 ring spindles, 2912 rotors for open end spinning, 28 Ginning machines and automatic baling press and 248 Air-jet/ Rapier looms. Yarn dyeing capacity is around 3000 kgs per day and woven fabric capacity is 80,000 meters per day.

- **Improvement in financial performance in 9MFY22**

The company has incurred net loss in FY20 and in FY21 due to subdued demand of cotton leading to drop in sales volume and average sales realisations in FY20 and low-capacity utilisation due to shutdown of manufacturing units, low sales order execution and effect of Covid-19 pandemic in FY21. However, with improvement in market situations and demand of cotton the company has witnessed jump in its sales realisation and earned a revenue of ~Rs.326.85 crore with a PAT of Rs.8.06 crore in 9MFY22 (As against a net loss of Rs.-14.16 crore on a revenue of Rs.142.64 crore in 9MFY21). With improved sales realisation and higher absorption of fixed overheads attributable to improvement in capacity utilisation, the EBITDA margin has also improved steadily to



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15.13% in 9MFY22. Further, during 9MFY22 the company has received subsidy of Rs.33 crore which has helped the company to manage its liquidity and repay its debt obligations. Infomerics expects further improvement in the financial performance of the company in the coming quarters of FY22.

Key Rating Weaknesses

- **Past history of default**

The company has defaulted in its repayments in the past attributable to its poor financial performance. However, in the past three months ending in December 2021 the company has satisfactorily serviced its debt obligations.

- **Profitability susceptible to fluctuations in key raw material prices**

The company's profitability is vulnerable to sharp fluctuations in raw material prices, which affects sales realisations. Cotton prices have been volatile in recent years. Given the nature of the industry and requirement to stock cotton for the non-cultivation phase profitability remains susceptible to any adverse movement in cotton prices along with high requirement of working capital.

- **Highly fragmented industry coupled with intense competition**

The spinning and fabric industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits the group's pricing flexibility and bargaining power.

- **Leveraged capital structure and weak debt protection metrics**

The capital structure of the company witnessed moderation over the past three account closing dates due to continuous net loss incurred by the company in FY20 and in FY21. The overall gearing ratio remained leveraged at 4.07x as on March 31,2021. Further, the debt protection metrics also remained depressed over the past two fiscals marked by weak interest coverage ratio and high total debt to EBITDA.

- **Working capital-intensive nature of operations**

Cotton, the key raw material for the home textiles business, is a seasonal crop and good quality cotton is available only during the peak cotton season (October to March). "KTL" maintains inventory of 4-6 months at the year-end as cotton availability and quality is generally an issue during the off-season.



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Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria on Default Recognition and Post-Default Curing Period](#)

Liquidity – Stretched

KTL's liquidity position is expected to remain stretched in the near term due to its high near-term debt repayments as against tightly matched cash accruals. Further, the operation of the company is working capital intensive which restricts its liquidity. However, cash inflow from realisation of government subsidy during 9MFY22 provides comfort to KTL's liquidity position. Further, the working capital limit utilisation of the company remained moderate at ~88% during the 12-month period ending in November 2021 indicating a moderate liquidity buffer.

About the Company

Incorporated on February 08, 1992, Andhra Pradesh-based, Kallam Textiles Limited formerly known as Kallam Spinning Mills Ltd "KTL" was promoted by Mr. Kallam Haranadha Reddy. At present "KTL" is managed by Mr. P.V. Reddy (Managing Director) along with Mr. G.V.K. Reddy (Joint Managing Director), Mr. M.V. Subba Reddy(Whole Time Director), Mr. V.S.N. Murthy(Independent Director), Mr. V. Ramgopal (Independent Director) Smt. V. Bhargavi (Non-Executive and Independent Director).

"KTL" is a well-integrated cotton textile unit, with its own ginning, ring spinning, open end spinning, weaving and dyeing divisions. The spinning mill is located at Chowdavaram, Guntur District and the weaving division is located in Kunkupadu, Prakasam District. The company also has three Hydel Power Plants of total capacity of 4 MW located in Telangana. Revenue from power units contributes less than 1% of the total revenue y-o-y.

Financials: Standalone

For the year ended* / As On	(Rs. crore)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	298.72	246.96
EBITDA	28.15	31.53
PAT	-12.09	-7.90



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For the year ended* / As On	31-03-2020	31-03-2021
Total Debt	315.04	350.49
Tangible Net worth	93.60	86.01
EBITDA Margin (%)	9.42	12.77
PAT Margin (%)	-4.02	-3.18
Overall Gearing Ratio (x)	3.37	4.07
Interest Coverage Ratio (x)	0.90	1.01

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	LT	180.35	IVR B+ /Stable (IVR Single B Plus with Stable Outlook)	-	-	-
2.	Cash Credit	LT	155.00	IVR B+ /Stable (IVR Single B Plus with Stable Outlook)	-	-	-
3.	Bill Discounting	ST	30.00	IVR A4 (IVR A Four)	-	-	-
4.	Bank Guarantee	ST	1.00	IVR A4 (IVR A Four)			

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	2026-27	180.35	IVR B+; Stable
Cash Credit	-	-	-	155.00	IVR B+; Stable
Bill Discounting	-	-	-	30.00	IVR A4
Bank Guarantee	-	-	-	1.00	IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Kallam-Textiles-lenders-feb22.pdf>



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Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.