

Kallam Textiles Limited

December 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	165.76	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	1.49	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable/ A Four)	Assigned
Long Term / Short Term Bank Facilities	189.75 (Enhanced from 20.00)	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable/ A Four)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Total Bank Facilities	357.00 (₹ Three Hundred Fifty- Seven Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Kallam Textiles Limited (KTL) is constrained due to its leveraged capital structure with moderate debt coverage indicators, working capital intensive nature of operations, fluctuating operational and financial performance y-o-y, highly fragmented and competitive industry with exposure to volatility in the cotton and yarn prices leading to fluctuating profitability margins. The rating, however, derives strength from the vast experienced promoters in the textiles industry, integrated nature of business operations with diversified product base. The rating also derives comfort from having a favourable plant location, solar captive power availability and government support in the form of subsidy.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Ability to scale up operations to above ₹600 crore with maintaining the PBILDT margins at or above 15%.
- ✓ Overall gearing improving to less than 1.5x
- ✓ Notable improvement in liquidity position

Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ Decline in the scale of operations by 30% or more with PBILDT margin below 10% on a sustained basis.
- ✗ Further deterioration in the operating cycle and/or liquidity position
- ✗ Any significant increase in the debt level impacting the solvency position in future.

Detailed description of the key rating drivers

Key Rating Weaknesses

Fluctuating operational and financial performance

The performance of the company largely depends on cotton prices and textile industry which is highly volatile in nature. The company has witnessed fluctuating trend of operating income and profits during FY19-FY22. The performance of the company was again severely impacted in Q2FY23 because of high cotton prices which resulted in net loss during H1FY23. After a notable growth witnessed in FY22 the company's revenue and profits are likely to moderate in the current financial year. Ability of the company to shield itself from adverse price movement by strengthening its product portfolio and market position remains critical from credit perspective.

Leveraged capital structure with moderate debt coverage indicators

The capital structure marked by overall gearing stands leveraged and was at peak as on March 31, 2021 at 3.95x due to net losses which impacted the net worth base and increase in debt by availing GECL loans to manage liquidity in Covid times and industry downturn. However, the gearing has improved yet remained leveraged at 3.15x as on March 31, 2022, majorly with

¹Complete definition of the ratings assigned are available at HYPERLINK "<http://www.careedge.in>" www.careedge.in and other CARE Ratings Ltd.'s publications

scheduled repayment of TL coupled with increase in net worth base at the back of ploughing back profit to reserve. The debt profile of the company comprises mainly term loan (for solar plant and weaving unit) and working capital loans. The gearing has improved further as on September 30, 2022 and stood at 2.87x on account increase in networth at the back of right issue raised for ₹ 10 crore in August 2022. The right issue money was utilized to repay part of its debt.

The debt coverage marked by Total debt to GCA and PBILD interest coverage ratio stands weak as on March 31, 2020 to March 31, 2021, due to reported net losses. However, it improved and stands moderate at 9.21 years and 2.13x respectively as on March 31, 2022 due to comfortable profit levels.

Working capital intensive nature of operations

The availability of cotton is seasonal, and the best quality is generally available in the month of November. The company has to procure enough cotton and hold it as inventory for uninterrupted year-round operations. This makes the company's operations highly working capital intensive and hence largely dependent on short-term and working capital borrowings. Furthermore, large bank borrowings result in higher finance costs thereby affecting profitability margins.

Intense competition prevalent in the cotton industry and forex risk

KTL is exposed to intense competition prevalent in the highly fragmented cotton industry and faces stiff competition from both organised and unorganised players. Also, KTL faces risk from its substitutes such as polyester and manmade fibre.

Furthermore, company does not hedge its foreign currency receipts making its operations vulnerable to the forex rate fluctuations, however, considering only less than 20% revenue from exports in the last 3 years, the risk of significant forex loss is low.

Susceptibility to volatility in prices of key raw materials

KTL's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic cotton (MECH, Shankar6). Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain. The business and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized. Nevertheless, the company is able to pass on the increased prices with a time lag of 1-2 months.

Key Rating Strengths

Experienced Management with long business track record

The Kallam group is engaged in the cotton ginning, pressing, weaving and other ancillary activities since 1956. Later, in 1992 the entire operations were transferred by incorporating separate entity Kallam Spinning Mills Limited (KSML), which is now known as Kallam Textiles Limited (KTL). KTL was promoted by Mr. Kallam Haranadha Reddy, and later it was handed over to its brother-in-law Mr Poluri Venkateshwara Reddy in 2002. Currently, the company is managed by three key management personnel i.e. Mr Poluri Venkateshwara Reddy (MD), Mr. Gurram Venkata Krishna Reddy (CEO) and Mr. Movva Venkata Subba Reddy (Director and CFO). The current management of KTL, have experience of over three decades in the textile industry, and are well supported by experienced and qualified second line of middle management to run the day-to-day operations of the company.

Integrated nature of business operations with diversified product base.

KTL has a vertically integrated cotton processing capacity which includes ginning, spinning, weaving, dyeing, and processing activities. It has total roller of 28 no.s (72000 bales / Annum), which is of modern technology. The spinning activity includes a capacity of 59,280 ring spindles with a production capacity of 420 tons per month whereas the open-end division has a capacity of 500 tons per month. The company also deals in TFO (two for one) yarn which is the two staged process where the yarns are doubled and then twisted. This process involves twisting of two or more single yarns in order to enhance the properties of the end product such as strengthening the yarn. The group has ~17 TFO machines. Furthermore, it also does direct warping and sectional warping [also known as sizing].

Favourable location of operations with solar captive power plants

KTL is located close to Guntur, one of the major cotton growing areas in Andhra Pradesh. Furthermore, the plant is also in close proximity to Khammam & Warangal, prominent cotton growing belts in Telangana region providing easy off take. KTL procures cotton from Guntur, Adilabad, Warangal, Maharashtra, etc.

The company has solar power plants with a total capacity of 3.8 MW, which is being utilized for fulfilling the inhouse power consumption.

Government support by way of granting subsidies:

Andhra Pradesh government grants subsidies in the form of interest subsidies and power subsidies to promote the cotton industry in the state. As on March 31, 2022 the interest and power subsidy stands at ₹ 3.75 crore and ₹ 25.16 crore respectively. As per the management the AP government provides interest subsidy with nominal time lag, but the power subsidies are long pending with the AP government and it has not been realised since FY19. The company has an outstanding subsidy (interest and power) from AP government of around ₹ 30 crore, which is expected to be received by the end of FY23. Receipt of this long pending subsidy will improve liquidity of the company and hence remains critical from rating perspective.

Liquidity – Stretched

The liquidity profile of the company is stretched with tightly matched accruals to repayment obligations. Also, the working capital limits are almost fully utilised. The average utilization of month end balance of working capital borrowings stood high at 85% for the last 12 months ended October 2022. Nevertheless, promoters are also resourceful, and can infuse need based funds to meet the debt obligations and other operational requirements.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

About the Company

Kallam Textiles Limited (KTL), formerly known as Kallam Spinning Mills Ltd is a listed company in BSE (Bombay Stock Exchange), which was established in 1992 with its registered office at Guntur, Andhra Pradesh. KTL is an integrated cotton textile unit, with its own ginning, ring spinning, open end spinning, weaving and dyeing divisions. The spinning mill is located at Guntur and the weaving division is located in Addanki (Mandal), Prakasam district. KTL produces various counts of yarn ranging from 20s to 80s.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	240.64	450.91	216.90
PBILDT	25.21	71.56	14.65
PAT	-7.90	11.81	-6.80
Overall gearing (times)	3.95	3.15	2.87
Interest coverage (times)	0.81	2.13	1.00

A: Audited, UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 31, 2030	165.76	CARE BB-; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	189.75	CARE BB-; Stable / CARE A4
Non-fund-based-LT/ST		-	-	-	1.49	CARE BB-; Stable / CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	189.75	CARE BB-; Stable / CARE A4	1)CARE BB-; Stable (05-Dec-22)	-	-	-
2	Fund-based - LT-Term Loan	LT	165.76	CARE BB-; Stable				
3	Non-fund-based-LT/ST	LT/ST*	1.49	CARE BB-; Stable / CARE A4				

*LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us**Media Contact**

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Nivedita Anirudh Ghayal
Contact no.: 9908090944
Email ID: nivedita.ghayal@careedge.in

Relationship Contact

Name: Ramesh Bob Asineparthi
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careedge.in

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