Kallam Textiles Limited

June 7, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	165.76	CARE B+; Stable	Revised from CARE BB-; Stable
Long Term / Short Term Bank Facilities	191.24	CARE B+; Stable / CARE A4	Revised from CARE BB-; Stable / CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Kallam Textiles Limited (KTL) is driven by deterioration in the financial risk profile due to decline in scale of operations and its leveraged capital structure with moderate debt coverage ratio, working capital intensive nature of operations, highly fragmented industry with high competition and exposure to volatility in the cotton and yarn prices leading to losses. The rating, however, derives strength from vast experienced promoters in the textiles industry, integrated nature of business operations with diversified product base, healthy operational and notable growth in the financial performance of FY23 (refers to the period April 01 to March 31). The rating also derives comfort from having a favorable plant location, captive power availability and government support in the form of subsidy.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to scale up operations to above ₹600 crore with maintaining the PBILDT margins at or above 12%.
- Overall gearing improving to less than 1.5x
- Notable improvement in liquidity position

Negative factors

- Decline in the scale of operations by 30% or more with PBILDT margin below 6% 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.

Analytical approach: Standalone

Outlook: Stable
Vintage of management in the industry is expected to guide business operations in longer term.

Detailed description of the key rating drivers:

Key weaknesses

Deterioration in financial performance during FY23 and losses reported in FY23(UA):

The financial performance has deteriorated during FY23 compared to FY22, majorly due to rise in input cost. Further the overall demand for yarn was weak in FY23 in the domestic and in the export market, hence the scale of operations also remained low, with capacity utilization of yarn at 77% and fabric at 70% in FY23 compared to 92% yarn and 85% fabric in FY22. Due to lower sales realization of yarn coupled with higher input cost pressure, the margins have decreased significantly, and losses have been reported in FY23.

Leveraged capital structure:

The capital structure marked by overall gearing stands leveraged during March 31, 2023. The gearing has deteriorated and has remained leveraged at 3.5x as on March 31, 2023, majorly due to decline in the networth and higher level of debt. The debt profile of the company comprises of term loan (for solar plant and weaving unit), USL and working capital loans. The money raised through right issue of ₹ 10 crore in August 2022 was utilized to repay its debt while increasing its equity base to ₹ 10.56 crore.

Working capital intensive nature of operations and forex risk:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The availability of cotton is seasonal and the best quality is generally available in the months of November. The company has to purchase enough cotton during those months and hold them as inventory for year-round the year operations. This makes the company's operations highly working capital intensive with associated short-term borrowings and finance costs affecting profitability. Exports contributed ~2% of total sales in FY23. The company does not hedge its foreign currency receipts making its topline vulnerable to the forex rate fluctuations, however, considering only <20% revenue in the export market for the last 3 years, the risk of significant forex loss is very low.

Intense competition prevalent in the cotton industry and availability of other substitutes:
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.

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 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 3 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 nos (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 captive power plants:
KTL is 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 two power plants with a capacity of 4 MW and Solar with a capacity of 2 MW. Further, another solar plant with a capacity of 1.8 MW has been completed in August 2022. The company till FY22 was selling under PPA arrangement, however, from Q1FY23, it has started selling power generation at IEX platform, and is estimated to get income of ₹ 5 crore annually. Further, solar power plant is installed 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, 2023 the interest and power subsidy stands at ₹28.91 crore respectively. As per the management the AP government is able to pass the interest subsidy with nominal time lag, although the power subsidies are long pending dues with the AP government, and it has been uncleared since FY19, therefore, clearing of the power subsidy remains critical from the credit perspective.

Liquidity: Stretched
The liquidity profile of the company is stretched with lower GCA reported in FY23 against the total scheduled repayment of ₹25.35 crore. The company has an o/s subsidy (interest and power) from AP government of ₹ ~30 crore, which is expected to be received by June 2023, which would be utilized to prepay the term debt. The promoters are also resourceful and can infuse funds in case

of any shortfall in the repayments. The average utilization of month end balance of working capital borrowings stood high at 96% for the last 12 months ended May 2023, due to working capital intensive business operations. The company is not planning for any capex, apart from minor capex for modernisation of the existing spinning machinery.

Assumptions/Covenants N.A.

Environment, social, and governance (ESG) risks: N.A.

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
Policy on Withdrawal of Ratings

About the company and industry

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. And it produces various counts of yarn ranging from 20s to 80s.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	240.64	450.91	414.19
PBILDT	25.21	71.56	23.06
PAT	-7.90	11.81	(21.29)
Overall gearing (times)	3.95	3.15	3.5
Interest coverage (times)	0.81	2.13	0.77

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Infomerics has downgraded the rating on bank facilities of KTL under 'Issuer not cooperating' vide press release dated March 31, 2023 due to lack of adequate data.

Any other information: N.A.

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: Annexure-4

Lender details: Annexure-5

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		-	-	31/03/2030	165.76	CARE B+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	189.75	CARE B+; Stable / CARE A4
Non-fund-based-LT/ST		-	-	-	1.49	CARE B+; 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 2023-2024	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
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	189.75	CARE B+; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (12-Dec-22) 2)CARE BB-; Stable (05-Dec-22)	-	-
2	Fund-based - LT-Term Loan	LT	165.76	CARE B+; Stable	-	1)CARE BB-; Stable (12-Dec-22)	-	-
3	Non-fund-based-LT/ST	LT/ST*	1.49	CARE B+; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (12-Dec-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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.

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