June 22, 2009

CARE REAFFIRMS RATINGS ASSIGNED TO THE BANK FACILITIES OF K.P.R MILLS LTD.

CARE has reaffirmed the **'CARE A-' (Single A minus)** rating assigned to the long-term bank facilities of K.P.R.Mill Ltd. (KPR). This rating is applicable for facilities having tenure of over one year. Instruments with this rating are considered to offer adequate safety for timely servicing of debt obligations. Such instruments carry low credit risk. Also, CARE has reaffirmed the **'PR2+' (PR Two plus)** rating assigned to the short-term bank facilities of the company. This rating is applicable for facilities having tenure up to one year.Facilities with this rating would have adequate capacity for timely payment of short-term debt obligations and carry higher credit risk as compared to facilities rated higher.

Instrument	**Amount (Rs. Crore)**	**Rating**
Long-term Bank Facilities	834.76	CARE A-
Short-term Bank Facilities	199.36	PR2+
Total	**1034.12**	

Rating Rationale

The ratings factor in the promoters' track record in the textile industry, KPR's status as one of the larger players in the Tiruppur yarn market and its integrated nature of operations. The ratings however, are constrained by the difficult operating environment characterized by slowdown in the textile industry and unfavorable power situation in Tamil Nadu where KPR's units are situated. KPR's falling profitability margins, concentration of garment exports to the European Union which is facing recessionary conditions and the possible impact of the derivative contracts entered into by the company on its financial risk profile also constrain the rating.

Company Profile

KPR is promoted by three brothers Mr.K.P.Ramasamy, Mr.K.P.D.Sigamani and Mr.P.Nataraj. KPR is an integrated player producing cotton yarn, cotton knitted fabrics and knitted apparels from its facilities located in the Tiruppur-Coimbatore region. The company in March 2008 commenced operations of its fabric processing division.

KPR has in the recent past enhanced capacities in all its three main areas of business namely yarn spinning, processing and garments. In the yarn business, the company has completed the expansion program and today is one of the larger players in the Tiruppur market. In respect of the garment and processing division the company has completed the first phase of the capital expenditure program and raised funds through an IPO for doubling the capacities (Phase –II) in these divisions. However, sharp downturn witnessed in the textile industry in the last few months and the power cuts have meant that the company has not been able to make best use of the already available capacity and hence has deferred the implementation of the phase –II projects over the next few FYs. Going forward, a large part of the incremental growth is expected to come from the scaling up of the garment operations while the spinning yarn business is expected to improve marginally with improvement in the utilization of capacity. However, given the demand slowdown witnessed in the textile industry as a whole, the ability of KPR to effectively utilize its capacities, maintain profits and profitability in this challenging business environment will be critical to its prospects. This along with the ability of KPR to mitigate the risks arising out of the derivative transactions, particularly in the light of possibility of unlimited losses in some of the contracts will be key rating sensitivities.

KPR reported a total operating income of Rs.574 cr in FY08 and a PAT of Rs.79 cr. For the nine-month period ended December 31,2008 the company reported an income of Rs.500 cr and a PAT of only Rs.8 cr .

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