December 29, 2008

CARE REVISES THE RATING ASSIGNED TO BANK LOAN RATINGS OF K.P.R.MILL LTD.

CARE has revised the rating assigned to K.P.R.Mill Ltd. (KPR)'s long-term bank facilities from 'CARE A+' (Single A plus) to 'CARE A-' (Single A minus). Also, CARE has revised the rating assigned to the short term bank facilities of the company from 'PR1+' (PR one plus) to 'PR2+' (PR two plus). The above ratings are assigned to both long-term facilities and short-term facilities aggregating Rs.972.42 crore.

The rating revision primarily factors in the potential losses on account of some of the derivative contracts entered into by the company, details of which were not made available at the time of initial rating and the possible impact of these transactions on the financial risk profile of the company. The ratings also factor in the promoters' track record in the textile industry, KPR's position as an integrated player in the business, concentration of the company's garment exports to the European Union, limited product profile in the yarn business with exposure to a number of small players in the Tiruppur region and the large expansion plans of the company in light of the not so favorable industry environment.

KPR Mill Ltd (KPR) is promoted by three brothers: Mr.K.P.Ramasamy, Mr.K.P.D.Sigamani and Mr.P.Nataraj. The promoters, assisted by a team of professionals run the day-to-day activities of the company. 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, thus covering the entire range of activities from yarn production to garment sales.

The company has entered into forex derivative contracts with its bankers with the stated purpose of 'hedging' currency risk on its export operations and 'interest saving' on its term loans. As on October 20, 2008, KPR has 13 live contracts aggregating USD 77 million (notional amount). These contracts have 'knock- in' options and in case the options are knocked in on their respective maturity dates, then in respect of a few contracts the downside risk is not protected. The company had Mark to Market (MTM) losses of Rs.68 cr as on March 31,2008 and Rs.43 cr as on August 30,2008. The company has not provided for the MTM losses in its accounts for FY08 and Q1FY09.

KPR reported a net sales (manufactured) of Rs.573 cr in FY08 representing a 22% growth over FY07.The high growth was mainly on account of the new capacities which came on stream during the year primarily in the yarn business. PBILDT margins were lower for FY08 as compared to FY07 though they continued to remain comfortable at 22% for FY08. The company reported a PAT of Rs.79 cr for FY08 as against Rs.58 cr for FY07. Overall gearing was 1.31 as on March 31, 2008. Adjusting for the MTM losses not provided, the overall gearing would have been 1.51 as on March 31, 2008.For the three month period ended June 30, 2008, KPR's reported a PAT of Rs.12 cr on a Total Income of Rs.174 cr.

Going forward, while the losses on account of derivative transactions, if any, are likely to arise during the next 18 months, the extent of losses and its impact on the financial risk profile of the company remains unclear in view of the volatile nature of the currency markets. At the same time, the absence of suitable risk management systems to identify, monitor and mitigate risks arising out of these transactions is of concern particularly in the light of possibility of unlimited losses in some of the contracts. It is imperative for KPR to immediately put in place mechanisms towards this end. This alongwith the evolving industry environment characterized by likely demand slow down, and pressure on margins would be key rating sensitivities.

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