

## Sri Nukala Rama Koteswara Rao Textiles Private Limited

Instrument	Amount in Rs crore	Rating Action
Term Loan	7.54	[ICRA]BB(Stable); reaffirmed
Packing Credit	50.00	[ICRA]BB(Stable); reaffirmed
Unallocated	34.54	[ICRA]BB(Stable)/A4; reaffirmed

ICRA has reaffirmed the long term rating assigned to the Rs. 7.54 crore<sup>1</sup> term loan facility and Rs. 50.00 crore packing credit facility of Sri Nukala Rama Koteswara Rao Textiles Private Limited(SNRKRTPL)<sup>†</sup> at [ICRA]BB (pronounced ICRA double B). ICRA has also reaffirmed the ratings assigned to Rs.34.54 crore unallocated limits of SNRKRTPL at [ICRA]BB/ [ICRA]A4 (pronounced ICRA A four). The outlook on the long term rating is 'Stable'.

The ratings reaffirmation is constrained by dip in operating profitability of the company over the last two years owing to increased focus of the company towards trading of cotton products which accounted for 60% of revenues in the past 2 years; decrease in operating income of the company by 4% in FY15 despite increase in sales volume by 28% on the back of decrease in average realization of cotton yarn; and weak financial profile of the company as indicated by gearing of 2.10 times, interest coverage ratio of 1.42 times, Net Cash Accruals-to-Total Debt of 13.33% for FY2015. The ratings are further constrained by the highly fragmented and competitive nature of the spinning industry with presence of several large and small scale players which limits the pricing power of the company as well as exposure to regulatory risks arising out of restriction on Minimum Support Price of cotton and restriction on export of cotton products. ICRA notes that with continued subdued demand of cotton yarn from China (which has been its top customer over the last three years), the company started exporting to other countries in order to sustain its sales volume. The ratings however favourably factors in the extensive experience of promoters in the cotton industry leading to established relationship with raw material suppliers and customers; improved working capital intensity of the company from 12.17% in FY14 to 7.71% in FY15 resulting in decreased working capital borrowings by the company.

Going forward, the ability of the company to scale up its operations, maintaining its profitability margins & working capital requirements as well as improving its capital structure will be the key drivers from credit perspective.

### Company Profile

Sri Nukala Rama Koteswara Rao Textiles Private Limited (SNRKRTPL) was incorporated by Mr. Nukala Rama Kotweswara Rao in Guntur and was initially engaged in cotton ginning and trading. The company diversified by starting two spinning mills in Chebrolu (Guntur District) and Rajahmundry in 2002 and 2005 respectively. The Rajahmundry unit has total capacity of 21600 spindles while the Chebrolu unit has 32280 spindles.

### Recent Results

According to audited FY15 financials, the company registered an operating income of Rs. 490.83 crore and net profit of Rs. 2.39 crore as compared to operating income of Rs. 499.88 crore and net profit of Rs.4.48 crore during FY14.

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<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.



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