



SMERA RATINGS LIMITED

J.K.Non Woven Bags Private Limited (JK)

*Rating
Rationale*

May 28, 2015

Facilities	Amount (Rs. Crore)	Rating
Term Loan	3.72	SMERA B+/Stable (Assigned)
Cash Credit	3.50	SMERA B+/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA B+**' (read as **SMERA single B plus**) to the abovementioned bank facilities of J.K.Non Woven Bags Private Limited (JK). The outlook is '**Stable**'. The rating is constrained by the company's short operational track record, modest-scale operations, low net worth and weak profitability. The rating notes that the company's profit margins are susceptible to material price volatility and competitive pressures. The rating is also constrained by the company's stretched liquidity position. However, the rating draws comfort from the company's experienced management and moderate financial risk profile.

JK, incorporated in 2012, is a Surat-based company engaged in manufacturing of non-woven bags, bouffant caps and masks. JK started commercial production in February 2013. The company has modest-scale operations marked by revenue of ~Rs.12.18 crore in FY2013-14 (refers to financial year, April 01 to March 31). JK's net worth is low at Rs.2.41 crore as on March 31, 2014. The company's profit margins are susceptible to volatility in raw material prices. JK's operating profit margin is low at 6.85 per cent in FY2013-14. The company is exposed to intense competition. JK's stretched liquidity position is evidenced by high utilisation (~98 per cent) of cash credit limit during April 2014 to March 2015.

JK benefits from its experienced management. Mr. Zaverilal Jain, managing director of JK, has around two decades of experience in the similar industry. JK's moderate financial risk profile is reflected in gearing (debt-to-net worth ratio) of 1.64 times as on March 31, 2014 (after considering unsecured loans of Rs.1.20 crore as quasi-equity) and interest coverage ratio of 2.35 times in FY2013-14. The company plans to purchase machineries of ~Rs.2.38 crore, which will be funded through term loan of Rs.1.68 crore and promoters' funds of Rs.0.70 crore. JK's cash credit limit was increased from Rs.1.50 crore to Rs.3.50 crore in March 2015.

Outlook: Stable

SMERA believes JK will maintain a stable business risk profile over the medium term. The outlook may be revised to 'Positive' in case the company registers strong growth in revenue while achieving sustained improvement in profit margins and financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in the company's revenue and profit margins, or in case of deterioration in the company's capital structure.

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About the company

JK, incorporated in June 2012, is a Surat-based company promoted by Mr. Zaverilal Jain and Mr. Kunal Jain. JK undertakes manufacturing of non-woven bags, bouffant caps and masks. The company started commercial operations in February 2013.

JK derives ~70 per cent of its revenue from sale of bags. The company has a manufacturing unit in Surat, with installed capacity of 200 tonnes per month (for bags) and 1, 00,000 pieces per day for surgical caps and masks.

For FY2013-14, JK reported profit after tax (PAT) of Rs.1.00 lakh on operating income of Rs.12.18 crore, as compared with PAT of Rs.0.29 lakh on operating income of Rs.0.48 crore in FY2012-13. The company registered revenue of Rs.12.53 crore (provisional) for the period April 2014 to February 2015. JK's net worth stood at Rs.1.21 crore as on March 31, 2014, as compared with Rs.1.18 crore a year earlier.

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