

Press Release

08 March, 2017

Kabadi Shankarsa & Co

Rating Reaffirmed

Total Bank Facilities Rated *	Rs. 27.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB+**' (read as **SMERA BB plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 27.00 crore bank facilities of Kabadi Shankarsa & Co. The outlook is '**Stable**'.

Kabadi Shankarsa & Co (KSC) is led by six partners (Karta of 6 HUFs), the successors of the late Mr. Kabadi Shankarsa. The firm is engaged in the manufacturing of silk fabrics, cotton cushion covers, pillow covers, bed sheets, etc. It exports around 85 per cent of its products to Hong Kong, UK, US and Europe. The firm caters to reputed clients including IKEA, H&M, Next, WalMart and Kmart.

Key Rating Drivers

Strengths

Established track record and experienced management

Kabadi Shankarsa & Co (KSC), a partnership firm was established in 1993. The firm is engaged in the manufacturing of silk fabrics, cushion covers, pillow covers and bed sheets. The partners possess extensive experience in the textile industry.

• **Moderate financial risk profile**

KSC's financial risk profile continues to remain moderate marked by comfortable net worth of Rs.24.89 cr as on March 31, 2016 that increased from Rs.21.50 cr as on March 31, 2015. The Gearing of the firm remained comfortable at 0.90 times as on March 31, 2016 and 0.95 times as on March 31, 2015. The ICR and DSCR stood comfortable at 2.96 times and 2.09 times in FY2015-16. The NCA/TD stood at 0.24 times in FY2016.

• **Moderate scale of operations**

The revenue grew moderately at a CAGR of ~ 14.94 per cent from FY2012 to FY2016. The firm achieved revenue of Rs. 128.84 cr in FY2015-16 compared to Rs. 94.48 cr in FY2014-15. Further the firm achieved revenue of Rs.74.00 cr in HY2016-17.

• **Working capital intensive operations**

KSC's operations are working capital intensive as evident in its moderate gross current assets (GCA) of around 132 days as on March 31 2016 that improved from 176 days as on March 31 2015. This is on account of improvement in debtors collections to 40 days in FY2015-16 from 84 days in FY2014-15.

The working capital cycle stood comfortable at 10 days in March 31 2016 from 42 days in March 31 2015. The current ratio of the firm remains moderate at 1.39 times in FY2016.

Weaknesses

Susceptibility of profit margins to fluctuations in raw material prices

The operating margins are susceptible to fluctuations in raw material prices and forex rates. The operating margin declined to 6.34 per cent in FY2016 from 8.12 per cent in FY2015 due to surge in raw material prices. The net profit margins remained at 2.34 percent in FY2015-16 and 3.19 percent in FY2014-15. The RoCE stood moderate at 13.02 percent in FY2015-16 as against 14.63 percent in FY2014-15.

• Customer concentration risk

The firm continues to be exposed to high customer concentration risk as it derives 80 percent of revenue from a single customer - IKEA. However, KSC caters to reputed clients such as IKEA, H&M, Next, WalMart and Kmart.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the firm.

Outlook: Stable

SMERA believes that KSC will continue to maintain a stable outlook in the medium term owing to the long track record of operations and its experienced management. The outlook may be revised to 'Positive' in case the firm registers substantial increase in its scale of operations while maintaining comfortable operating profit margins. Conversely, the outlook may be revised to Negative in case the firm fails to achieve the projected scalability in revenues or registers deterioration in the firm's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

In FY2015-16, KSC reported profit after tax (PAT) of Rs. 3.02 cr on operating income of Rs. 128.84 cr as against profit after tax (PAT) of Rs. 3.01 cr on operating income of Rs. 94.48 cr in the previous year. The net worth stood at Rs. 24.89 cr as on 31 March, 2016 against Rs. 21.50 cr a year earlier.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Jan-2016	Packing Credit/Packing Credit in Foreign Currency	Short Term	INR 18	SMERA A4+
	Term Loan I	Long Term	INR 2	SMERA BB+ / Stable
	Term Loan II	Long Term	INR 2.7	SMERA BB+ / Stable
	Term Loan III	Long Term	INR 3.5	SMERA BB+ / Stable
	Proposed Bank Facility	Long Term	INR 0.8	SMERA BB+ / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA A4+
Term loans	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+

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ABOUT SMERA

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