

Press Release

Kabadi Shankarsa & Co

June 24, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 27.00 Cr.
Long Term Rating	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded and assigned the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 27.00 crore bank facilities of Kabadi Shankarsa & Co. The outlook is '**Stable**'.

The downgrade in rating reflects deterioration in their business risk profile marked by dip in sales and net profit levels in the last two years ended FY 2019 resulting in lower net cash accruals. The rating continues to reflect the established track record and comfortable financial risk profile. These rating strengths are partially mitigated by the working capital intensive operations of the company.

Kabadi Shankarsa & Co (KSC) is led by six partners (Karta of 6 HUFs), the successors of 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KSC to arrive at the rating.

Key Rating Drivers:

Strengths

Long track record of operations

Established in 1993, the firm has a long track record of over 25 in textile industry. The long track record has helped establish healthy relations with reputed customers and suppliers.

Above average financial risk profile

The financial risk profile of the firm is marked by modest net worth, comfortable gearing and debt protection metrics. The net worth stood at Rs.39.51 crore in FY2019 (Prov.) as its increased from Rs.36.87 crore in FY2018, mainly on account of retention of current year profit. The gearing stood comfortable at 0.45 times in FY2019 (Prov.) as compared to 0.56 times in FY2018. The total debt of Rs.17.78 crore consist only short term debt of Rs.16.84 crore and unsecured loan of Rs.0.94 crore as on 31st March 2019 (Prov.). The interest coverage ratio (ICR) stood comfortable at 2.38 times in FY2019 (Prov.) as compared to 3.00 times in FY2018. The debt service coverage ratio (DSCR) stood comfortable at 2.38 times in FY2019 (Prov.) as compared to 3.00 times in FY2018. The net cash accruals against the total debt stand moderate at 0.17 times in FY2019 (Prov.) as well as in FY2018. Going forward, Acuité expects the financial risk profile of the firm to remain stable.

Weaknesses

Dip in operating income and profitability margins

Operating income has dipped since 2017. The operating income dipped significantly to Rs 68.36 crore in FY 2018 from Rs 103.69 crore in FY 2017. However, during FY 2019 (prov), the firm has been able to improve its operating income by achieving revenue of Rs 78.55 crore. Acuite, further notices that since 2017, the firm has not been able to reduce its interest/finance cost in line with the revenue resulting in dip in net profit margins. The net profit margins dipped to 1.49 per cent in FY 2019 (prov) from 2.05 percent in FY 2017.

Working capital intensive nature of operations

KSC's working capital intensive nature of operation is marked by Gross Current Assets (GCA) of 212 days in FY2019 (Prov.) compared to 228 days in FY2018. This high GCA emanates mainly from high inventory days and loans and advances given to related parties. The inventory days stood at 98 in FY2019 (Prov.) as compared to 129 in FY2018. The firm has given loans and advances of Rs 19.11 crore to related parties in FY 2019 (prov).

Liquidity Position

The firm has adequate liquidity marked by net cash accruals of Rs 3.07 crore in FY 2019 (prov) against no debt repayment obligations. However, Acuite notices that the annual net cash accruals are in the declining trend as envisaged from Rs 3.07 crore in FY 2019 (prov) from Rs 4.60 crore in FY 2017. The firm's operations are working capital intensive as marked by gross current asset (GCA) days of 212 in FY 2019 (Prov.) with 90 per cent utilization of working capital limit.

Outlook: Stable

Acuite believes KSC will continue to benefit over the medium term from its long track record of operation. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and improves its net profit margins while improving its working capital intensity. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected revenues, and there is further dip in net profit margins or in case of deterioration in the working capital management.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	78.55	68.36	103.69
EBITDA	Rs. Cr.	5.29	5.08	6.93
PAT	Rs. Cr.	1.17	1.26	2.13
EBITDA Margin	(%)	6.73	7.44	6.68
PAT Margin	(%)	1.49	1.85	2.05
ROCE	(%)	5.91	5.51	17.96
Total Debt/Tangible Net Worth	Times	0.45	0.56	0.67
PBDIT/Interest	Times	2.38	3.00	2.92
Total Debt/PBDIT	Times	3.36	4.00	2.88
Gross Current Assets (Days)	Days	212	228	137

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Mar-2018	Term Loan	Long Term	2.50	ACUITE BB+/Stable (Indicative)
	Term Loan	Long Term	2.00	ACUITE BB+/Stable (Indicative)
	Term Loan	Long Term	3.50	ACUITE BB+/Stable (Indicative)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Indicative)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Indicative)
08-Mar-2017	Term Loan	Long Term	2.50	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.50	ACUITE BB+/Stable (Reaffirmed)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Reaffirmed)
13-Jan-2016	Term Loan	Long Term	2.50	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	3.50	ACUITE BB+/Stable (Assigned)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/Stable (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4+ (Reaffirmed)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB/Stable (Assigned)

Proposed Short Term	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)
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About Acuité Ratings & Research:

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