

Press Release

Kabadi Shankarsa & Co

March 15, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.27.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.22.05 Cr bank facilities and assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.4.95 crore bank facilities of Kabadi Shankarsa & Co (KSC). The outlook is '**Stable**'.

The rating reaffirmation takes into account long track record of operations, experienced management and adequate liquidity position marked by adequate cash accruals against repayment obligations. The rating, however, continues to remain constrained on account of dip in revenue and margins in FY2020, working capital-intensive operations driven majorly by high inventory levels, average financial risk profile marked by low net worth & debt protection matrices and the impact on operations in FY2021 due to global outbreak of COVID-19.

About the Firm

Karnataka – based, KSC was established as a partnership firm in 1993. The firm is promoted by Sri Sahajanandsa K.S, Sri Raghunathsa K.S, Sri Bhaskarsa K.S, Sri Omprakash K.S., Sri Shivaramsa K.S and Sri Madhusudan. The firm is primarily engaged in manufacturing and export of home textiles, kitchen textiles made by cotton, silk, polyester, linen and blends fabric with the installed capacity of 50 lakhs pcs. /annum. It exports around 70-80 percent of its products to Europe, USA, Australia, among others. The firm caters to reputed clients, including IKEA, H&M, Next, etc.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of KSC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

The promoters, Sri Sahajanandsa K.S, Sri Raghunathsa K.S, Sri Bhaskarsa K.S, Sri Omprakash K.S., Sri Shivaramsa K.S and Sri Madhusudan, have over two decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the firm to forge healthy relationships with customers and suppliers.

Acuite believes that the partner's extensive experience and healthy relationship with customers and suppliers are expected to support its business risk profile over the medium term.

Weaknesses

- **Working capital intensive operations**

KSC's working capital operations are intensive marked by Gross Current Asset days (GCA) of 259 days in FY2020 against 209 days in FY2019. This is majorly due to high inventory and receivable days. The inventory days stood at 124 days in FY2020 against 103 days in FY2019; since the export market was impacted on account of the outbreak of COVID-19 due to which the products had to be kept in the warehouse. Further, the firm maintains an inventory holding policy of 90-150 days to meet immediate orders of the customers. The debtors' days stood at 25 days in FY2020 against 20 days in FY2019 which is corresponding to normal terms with customers. However, working capital bank lines remains fully utilized for last trailing eleven months ended February, 2021.

Acuite believes that the working capital operations are expected to remain high with respect to the inventory cycle and which will remain key rating sensitivity factor.

• Average financial risk profile

Financial risk profile of KSC is average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and deteriorating debt protection metrics. The gearing stood at 0.48 times as on March 31, 2020 against 0.43 times as on March 31, 2019. TOL/TNW stood at 0.65 times as on March 31, 2020 against 0.50 times as on March 31, 2019. Tangible net worth of the firm stood low at Rs.35.52 crore as on March 31, 2020 against Rs.38.55 crore as on March 31, 2019. There has been capital withdrawal. The total debt of Rs.17.05 crore as on March 31, 2020 includes long-term debt of Rs.0.56 crore, short-term debt of Rs.15.95 crore and unsecured loans of Rs.0.54 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood low at 2.01 times and 0.11 times respectively in FY2020; while DSCR stood at 2.01 times in FY2020.

Acuite believes that the financial risk profile is expected to remain at similar level in the medium term and the ability of the firm to improve its capital structure by improvement in the net worth will be critical in order to maintain a stable credit profile.

• Dip in revenue and operating margins

The revenue of KSC stood at Rs.62.23 crore in FY2020 against Rs.78.46 crore in FY2019; declined majorly due to the global outbreak of covid-19 since the export market was impacted since December, 2020. The operating margin of the firm stood at 5.44 percent in FY2020 as against 5.99 percent in FY2019; declined majorly due to increase in the fixed costs and fluctuations in raw material prices.

• Risk of capital withdrawal associated with partnership nature

KSC was established as a partnership firm in 1993. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

KSC has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals of Rs.1.82 crore – Rs.3.42 crore during the last three years through 2018-20 against moderate repayment obligations in the range of Rs.0.05 crore – Rs.0.10 crore. It is expected to generate cash accruals in the range of Rs.0.71 crore – Rs.6.14 crore over the medium term, against moderate repayment obligations in the range of Rs.0.40 crore – Rs.2.00 crore. Unencumbered cash and bank balances stood at Rs.0.66 crore as on March 31, 2020 with a current ratio of 2.16 times in the same period. Liquid investments stood at Rs.3.47 crore as on March 31, 2020. However, the working capital bank lines remains fully utilized for last trailing eleven months ended February, 2021.

Acuite believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuite believes that KSC will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	62.23	78.46
PAT	Rs. Cr.	0.13	0.98
PAT Margin	(%)	0.21	1.25
Total Debt/Tangible Net Worth	Times	0.48	0.43
PBDIT/Interest	Times	2.01	2.46

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Sep-2020	Packing Credit	Short Term	14.00	ACUITE A4 (Downgraded; Indicative)
	Cash Credit	Long Term	4.00	ACUITE BB- (Downgraded; Indicative)
	Proposed Long Term Loan	Long Term	8.00	ACUITE BB- (Downgraded; Indicative)
	Proposed Short Term Loan	Short Term	1.00	ACUITE A4 (Downgraded; Indicative)
24-Jun-2019	Cash Credit	Long Term	4.00	ACUITE BB/ Stable (Assigned)
	Packing Credit	Short Term	14.00	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	8.00	ACUITE BB/ Stable (Assigned)
	Proposed Short Term Loan	Short Term	1.00	ACUITE A4+ (Assigned)
29-Mar-2018	Term Loan	Long Term	2.50	ACUITE BB+ (Indicative)
	Term Loan	Long Term	2.00	ACUITE BB+ (Indicative)
	Term Loan	Long Term	3.50	ACUITE BB+ (Indicative)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Indicative)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Indicative)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB-/ Stable (Reaffirmed)
Packing Credit *	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4 (Reaffirmed)
Working Capital Term Loan (GECL)	Jun-2020	8.25%	Jul-2024	3.15	ACUITE BB-/ Stable (Assigned)
Working Capital Demand Loan	Apr-2020	7.85%	Apr-2022	1.80	ACUITE BB-/ Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	3.05	ACUITE BB-/ Stable (Reaffirmed)
Proposed Short Term Loan #	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Reaffirmed)

* FDB/FBE is sublimit of Packing Credit to the extent of 4.00 crore.

#ILC/FLC is sublimit of proposed short term loan to the extent of Rs.2.00 crore.

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About Acuite Ratings & Research:

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