

Press Release

Kabadi Shankarsa & Co

June 06, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	15.00	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	27.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its 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.27 Cr bank facilities of Kabadi Shankarsa and Company (KSC). The outlook is '**Stable**'.

The rating reaffirmation takes into account its long track record of operations, experienced management and adequate liquidity position marked by adequate cash accruals against repayment obligations. The rating, however, remain constrained on account of working capital intensive operations driven majorly by high inventory levels, below-average financial risk profile marked by low net worth & debt protection metrics.

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. Acuité 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.

- **Recovery in operational performance of FY2022**

As per the FY2022 annual provisionals financials, the firm has reported Rs.54.49 Cr of revenue which was 50 percent higher than FY2021, the major increase in operating revenue is due to the upliftment of covid restrictions as the firm can export their products to various countries. However, margins are expected to fluctuate due to the fluctuation in raw material costs and increase in other fixed costs.

Weaknesses

- **Below-average financial risk profile**

KSC's financial risk profile remained below-average marked by modest net worth, high gearing and below-average debt protection metrics. The tangible net worth stood at Rs. 33.41 Cr as on 31 March, 2021 as against Rs. 35.52 Cr as on 31 March, 2020. The gearing of the firm stood at 0.65 times as on 31 March 2021 as against 0.48 times as on 31 March, 2020. The total debt as on 31 March, 2021 consist of working capital limits from banks of Rs. 21.81 Cr. Further, the interest coverage ratio stood at 1.91 times as on 31 March, 2021 as against 2.01 times as on 31 March, 2020. The debt to EBITDA of the firm stood at 6.87 times as on 31 March, 2021 as against 4.70 times as on 31 March, 2020. However, the TOL/TNW stood to 0.86 times as on 31 March, 2021 as against 0.65 times as on 31 March, 2020. Acuité believes that the KSC's financial risk profile will remain moderate over the medium term.

- **Working capital intensive operations**

The working capital management of the firm is intensive marked by high Gross Current Asset (GCA) days of 484 days as on 31 March, 2021 as against 259 days as on 31 March, 2020. Inventory days stood at 244 days as on 31 March, 2021 as against 124 days as on 31 March, 2020. Subsequently, the payable period stood at 116 days as on 31 March, 2021 as against 44 days as on 31st March, 2020 respectively. The debtors' day stood at 46 days as on 31 March, 2021 as against 25 days as on 31 March, 2020. Further, the average bank limit utilization in the last twelve months ended March, 22 remained at ~93.7 percent for fund based. Acuité believes that the operations of the KSC will remain working capital intensive over the medium term.

- **Risks of withdrawal of capital by partners**

Entity, being a partnership firm, is exposed to adverse capital structure risk, where any substantial capital withdrawal could negatively impact its net worth and capital structure and the liquidity position.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the firm.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the firm.
- Any deterioration in Revenue profile and leverage position of the firm.

- Anyweakening of financial risk profile of the firm.
- Any substantial capital withdrawal could impact its net worth and capital structure and the liquidity position.

Material covenants

None

Liquidity Position: Adequate

KSC's liquidity is adequate marked by its moderate net cash accruals to its maturing debt obligations. The firm has reported cash accruals of Rs. 1.51 Cr. in FY2021 and expected to generate cash accruals in the range of Rs.1.76-2.73 Cr. against CPLTD of Rs.0.89- 1.18 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.11 Cr as on 31 March 2021. The current ratio of the firm stood at 2.10 times as on 31 March, 2021. Acuité believes that KSC liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	36.81	62.23
PAT	Rs. Cr.	0.04	0.13
PAT Margin	(%)	0.10	0.21
Total Debt/Tangible Net Worth	Times	0.65	0.48
PBDIT/Interest	Times	1.91	2.01

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Mar	Proposed Short Term Loan	Short Term	1.00	ACUITE A4 (Reaffirmed)
	Working Capital Term Loan	Long Term	3.15	ACUITE BB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.80	ACUITE BB- Stable (Assigned)

2021	Proposed Long Term Loan	Long Term	3.05	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB- Stable (Reaffirmed)
	Packing Credit	Short Term	14.00	ACUITE A4 (Reaffirmed)
02 Sep 2020	Proposed Short Term Loan	Short Term	1.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	8.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	14.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	4.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
24 Jun 2019	Proposed Short Term Loan	Short Term	1.00	ACUITE A4+ (Assigned)
	Packing Credit	Short Term	14.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB Stable (Assigned)
	Proposed Long Term Loan	Long Term	8.00	ACUITE BB Stable (Assigned)
29 Mar 2018	Term Loan	Long Term	2.50	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	2.00	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	3.50	ACUITE BB+ (Issuer not co-operating*)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Issuer not co-operating*)
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	Packing Credit	Short Term	18.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	2.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	2.70	ACUITE BB+ Stable (Assigned)
2016	Term Loan	Long Term	3.50	ACUITE BB+ Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	0.80	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB- Stable Reaffirmed
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	3.05	ACUITE BB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 Reaffirmed
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	15-04-2020	7.85	20-04-2022	1.80	ACUITE BB- Stable Reaffirmed
Canara Bank	Not Applicable	Working Capital Term Loan	30-06-2020	8.25	01-07-2024	3.15	ACUITE BB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Moparthy Anuradha Devi Management Trainee-Rating Operations Tel: 022-49294065 moparthy.anuradha@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.