



Press Release
Kabadi Shankarsa & Co
August 24, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.00	ACUITE BB Stable Upgraded	-
Bank Loan Ratings	21.00	-	ACUITE A4+ Upgraded
Total Outstanding Quantum (Rs. Cr)	27.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to **ACUITE BB (read as ACUITE double B)** from '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.27 Cr bank facilities of Kabadi Shankarsa and Company (KSC). The outlook is '**Stable**'.

Rationale for Upgrade

The rating upgrade takes into account of overall improvement in the business risk profile of the firm marked by substantial increase in the turnover, absolute profitability levels and improvement in the financial risk profile of the firm. The firm recorded operating income of Rs.118.16 crore in FY2023 (prov) and increase in the operating margin to 6.52 percent in FY2023 (prov) from 3.03 percent in FY2022. The improvement in the operating margin is mainly due to mass production, introduction of new products with higher margin levels. The rating also draws comfort from the improving financial risk profile with gearing ratio less than one, efficient working capital and adequate liquidity. The rating, however, remain constrained on account of risks of withdrawal of capital by partners.

About the Company

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. The experienced

management have supported in improving the business risk profile of the firm. The firm reported Rs.118.16 crore of revenue in FY2023(prov) which is 117 percent higher than FY2022. The growth in the operating income is mainly due to favourable export market and development of new products under home furnishing. The operating margin improved to 6.52 percent in FY2023 (prov) from 3.03 percent in FY2022. The improvement in the operating margin is mainly due to mass production, introduction of new products with higher margin levels. Acuite expects the operating income to moderate over the near to medium term, with the top line estimated to decline to Rs. 60-75 crore primarily on account of reduced export orders. However, the profitability of the company is expected to be maintained in the range of 6.5-7 percent for the same period.

Moderate financial risk profile

KSC has a moderate financial risk profile mainly marked by improving net worth, declining gearing and moderate debt protection matrices. The tangible net worth of the firm stood at Rs.31.91 crore as on March 31, 2023 (prov) against Rs.29.66 crore as on March 31, 2022. The gearing of the firm improved with marginal improvement in net worth and stood at 0.64 times in as on 31 March, 2023 (prov) as against 0.90 times as on 31 March, 2022. Further, the Interest Coverage Ratio (ICR) stood at 3.95 times as on 31 March, 2023 (prov) as against 0.87 times as on 31 March, 2022. The debt to EBITDA of the firm stood at 2.14 times as on 31 March, 2023 (prov) as against 14.98 times as on 31 March, 2022. However, the TOL/TNW improved to 0.76 times as on 31 March, 2023 (prov) as against 1.05 times as on 31 March, 2022.

The significant improvement in coverage ratios is primarily driven by improvement in absolute profits of the company, however, over the near to medium term, with the scale of operations expected to moderate down, the coverage ratios are expected to increase over the period albeit remaining comfortable.

Weaknesses

Working capital intensive operations

KSC's working capital cycle has improved during the period marked by GCA days of 132 days as on 31 March 2023(prov) as against 362 days as on 31 March 2022. GCA majorly consists of inventory, debtors and loans and advances. Debtors days has improved and stood at 17 days in 31 March 2023 (prov) against 42 days in 31 March 2022. The inventory days have improved and stood at 45 days in 31 March 2023(prov) against 149 days in 31 March 2022. Subsequently, the payable period decreased to 18 days as on 31 March,2023(prov) as against 51 days as on 31 March,2022 respectively. Further, the average bank limit utilization in the last twelve months ended July 2023 remained average at 35.13 percent for fund based facility and 88.45 percent for packing credit i.e non-fund based facility.

The improvement in working capital cycle is primarily driven by improved scale of operations during the year. Acuite believes, with scale of operations expected to moderate down over the near to medium term, the working capital cycle is expected to elongate over the period.

Acuite believes that the working capital operations of the KSC will remain moderate 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

- Improvement in scale of operations while maintaining its profitability and capital structure
- Significant elongation in working capital cycle
- Any substantial capital withdrawal impacting its 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. KSC generated net cash accruals of Rs.7.07 crore in FY2023 (prov), and Rs. (0.27) crore in FY2022 against the repayment obligations of Rs.1.67 crore in FY2023 (prov) and Rs.1.25 crore in FY2022 and estimated to remain around Rs.2.14 – 3.21 crore during 2024-26 against the debt obligation of Rs.0.98-0.52 crore for the same period. Unencumbered cash and bank balances stood at Rs.2.07 crore and liquid investments at Rs.5.71 crore as on March 31, 2023 (prov). The current ratio stood average, 2.17 times ended with March 31, 2023 (prov). 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 maintains growth in its revenues at current levels while maintaining its margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected revenues and profitability or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	118.16	54.43
PAT	Rs. Cr.	5.91	(1.56)
PAT Margin	(%)	5.00	(2.87)
Total Debt/Tangible Net Worth	Times	0.64	0.90
PBDIT/Interest	Times	3.95	0.87

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

Care vide its press release dated 2nd August 2022, had reaffirmed the company to CARE B+/Stable/A4; Issuer Not Cooperating.

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jun 2022	Working Capital Demand Loan	Long Term	1.80	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.15	ACUITE BB- Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	3.05	ACUITE BB- Stable (Reaffirmed)
	Packing Credit	Short Term	14.00	ACUITE A4 (Reaffirmed)
	Proposed Short Term Loan	Short Term	1.00	ACUITE A4 (Reaffirmed)
15 Mar 2021	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)
	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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BB Stable Upgraded
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE A4+ Upgraded
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BB Stable Upgraded

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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.

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