



Press Release
Kabadi Shankarsa & Co
November 21, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.00	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	21.00	-	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Total Withdrawn Quantum (Rs.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 Ba**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.27 Cr. bank facilities of Kabadi Shankarsa and Company (KSC). The outlook is '**Stable**'.

Rationale for reaffirmation :

The rating reaffirmation takes into consideration the moderate financial risk profile, adequate liquidity and improved EBTIDA margins in FY2024 as compared to FY2022. The improvement in the operating margin is mainly due to the introduction of new products with higher margin levels and moderation in raw material costs. The rating also takes into account experienced management team and reputed clientele of the firm. Further, FY2024 revenue stood at normal levels, i.e., (back to FY2022 levels), due to regulations of the export market and luxury products.

The rating, however, remains constrained on account of working capital-intensive operations and 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 the manufacturing and export of home textiles and kitchen textiles made of cotton, silk, polyester, linen, and blended fabrics with an installed capacity of 50 lakhs of pieces per year. 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.

Unsupported Rating

Not Applicable

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 has supported improving the

business risk profile of the firm. 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.

• **Scale of operations**

KSC has recorded operating income of Rs. 52.73 Cr in FY2024 as against Rs. 118.90 Cr. in FY2023 and Rs.54.54 Cr. in FY2022. The growth in the operating income in FY2023 is mainly due to a favorable export market, an increase in the order book, and the development of new products under home furnishing. FY2023 was an expectational year for the firm. The revenue in FY 2024 stood at normal levels, i.e., back to FY2022 levels due to regulations of the export market and luxury products. The export sales constituted 50 percent of the total sales in FY2024. The operating margin improved to 6.45 percent in FY2024 from 5.57 percent in FY2023. The improvement in the operating margin is mainly due to the introduction of new products with higher margin levels and moderation in raw material costs. The net margin stood at 0.96 percent in FY2024 as against 2.79 percent in FY2023. Acuité believes that, going forward, the business risk profile will continue to stable, backed by the steady demand for the textile segment.

• **Moderate financial risk profile**

KSC's financial risk profile is moderate, marked by moderate net worth, debt protection metrics, and low gearing. The tangible net worth stood at Rs. 21.56 Cr. as on March 31, 2024, as against Rs. 29.27 Cr. as on March 31, 2023. The decline in net worth in FY2024 is due to drawings by partners from partners' capital accounts in KSC. The gearing of the firm stood at 0.77 times as on March 31, 2024, against 0.64 times as on previous year. The total debt as on March 31, 2024, consists of working capital limits from banks of Rs. 15.72 Cr. and term loans of Rs. 0.96 Cr. Further, the interest coverage ratio stood at 1.77 times as on March 31, 2024, as against 2.87 times as on March 31, 2023. DSCR stood at 1.53 times as on March 31, 2024, as against 1.69 times as on March 31, 2023. The debt to EBITDA of the company stood at 4.63 times as on March 31, 2024, as against 2.72 times as on March 31, 2023. However, the TOL/TNW stood to 0.88 times as on March 31, 2024, as against 0.78 times as on March 31, 2023. Acuité believes that, going forward, the financial risk profile will remain moderate over the medium term in the absence of any major debt-funded capex plans.

Weaknesses

• **Working capital intensive operations**

The operations of the firm are working capital intensive, marked by Gross Current Asset (GCA) days of 232 days in FY2024 as against 135 days in FY2023. GCA days in FY2024 have deteriorated on account of an increase in inventory days. Inventory days stood at 72 days in FY2024 as against 38 days in FY2023. Debtor days stood at 25 days in FY2024 as against 17 days in FY2023. Subsequently, the payable period stood at 25 days in FY2024 as against 18 days in FY2023, respectively. Further, the average bank limit utilization for the fund based limits stood at 63 percent for the last six months ended October 2024.

• **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

Liquidity Position: Adequate

The liquidity profile of KSC is adequate, marked by its adequate net cash accruals to its maturing debt obligations. The company has reported cash accruals of Rs. 1.57 Cr. in FY2024 as against the current portion of long-term debt (CPTLD) of Rs. 0.32 Cr. and is expected to generate cash accruals in the range of Rs. 1.99-2.42 Cr. in FY2025-26 against CPLTD of Rs. 0.36-0.39 Cr. over the same years. Unencumbered cash and bank balances stood at Rs. 0.01 Cr. as on March 31, 2024. The current ratio of the company stood at 1.84 times as on March 31, 2024. Further, the average bank limit utilization in the last six months ended October 2024 remained at ~63 percent for fund-based limits. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of the working capital-intensive nature of operations.

Outlook: Stable

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	52.73	118.90
PAT	Rs. Cr.	0.51	3.32
PAT Margin	(%)	0.96	2.79
Total Debt/Tangible Net Worth	Times	0.77	0.64
PBDIT/Interest	Times	1.77	2.87

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
24 Aug 2023	PC/PCFC	Short Term	21.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Cash Credit	Long Term	4.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Proposed Long Term Loan	Long Term	2.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
06 Jun 2022	Proposed Short Term Loan	Short Term	1.00	ACUITE A4 (Reaffirmed)
	PC/PCFC	Short Term	14.00	ACUITE A4 (Reaffirmed)
	Proposed Long Term Loan	Long Term	3.05	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB- Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	1.80	ACUITE BB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.15	ACUITE BB- Stable (Reaffirmed)
15 Mar 2021	Proposed Short Term Loan	Short Term	1.00	ACUITE A4 (Reaffirmed)
	PC/PCFC	Short Term	14.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB- Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	3.05	ACUITE BB- Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	1.80	ACUITE BB- Stable (Assigned)
	Working Capital Term Loan	Long Term	3.15	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

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

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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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