

Press Release

Kanchan Vanijya Private Limited

May 22, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B** (read as SMERA B) and short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs. 30.00 crore bank facilities of Kanchan Vanijya Private Limited. The outlook is '**Stable**'.

KVPL, incorporated in 1972, is a Kolkata-based company promoted by Mr. Rajeev Gupta and family. The company is engaged in the manufacture and export of leather products (primarily bags) at its facility at Kolkata.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations:**

The company has operational track record of 45 years and the promoter of the company, Mr. Rajeev Gupta has more than four decades of experience in the leather industry.

- Reputed Clientele:**

KVPL is associated with reputed international and domestic brands like Debenhams, Lavie, Bagzone, Jones Bootmaker, Bagzone Lifestyles Pvt Ltd etc to name a few. The company has developed comfortable relationships with these clients over the years which have helped them get repeat orders from them. .

Weaknesses

- Weak financial risk profile:**

The company continues to have a weak financial risk profile marked by high gearing, low networth and moderate debt protection metrics. Though the gearing has decreased to 5.55 times in FY2016 compared to 8.02 times in FY2015, still it is at an aggressive level. The net worth is at relatively low levels of around Rs 5.55 crore in FY2016 as against Rs. 2.79 crs in the previous year. The interest coverage is modest at 1.66 times in FY2016 compared to 1.51 times in FY2015. While, Debt Service Coverage ratio (DSCR) is at 1.29 times in FY2016 compared to 1.31 times in FY2015. For FY2017 (Provisional) Debt equity is at 4.94 times and networth is at Rs 5.95 crore.

- Working capital intensive operations:**

The operations of the company are working capital intensive marked by gross current asset (GCA) days of 306 in FY2016 as compared to 351 days in FY2015. These high gross current days emanates from high inventory days of 230 and collection days of 61 in FY2016. High inventory days are mainly on account of lengthy processing cycle of 150 days on an average.

- Geographical concentration risk and susceptibility to fluctuations in exchange rate:**

KVPL has more than 90% of its revenue through exports. The major exports being to the UK ~81%. Thus exposed to changes in political and economic scenario in UK. Apart from this, the company's sales and profitability is also susceptible to fluctuations in exchange rate. As it gets more than 90 per cent of its revenue from exporting, any adverse movement in foreign currency can affect its sales and margins.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company

Outlook: Stable

SMERA believes KVPL's outlook will remain stable owing to its long standing promoter experience. The outlook may be revised to 'Positive' if KVPL is able to achieve more than expected growth in revenues or significant reduction in geographical concentration while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of additional working capital borrowings leading to deterioration in the overall gearing or further weakening of profitability margins.

About the Rated Entity - Key Financials

For FY2015-16, KVPL reported Profit after tax (PAT) of Rs.0.71 crore on operating income of Rs.36.65 crore, as compared with PAT of Rs.0.57 crore on operating income of Rs.28.54 crore in FY2014-15. For the period April 2016 to March 2017, company has achieved revenue of ~Rs. 26.15 crore (Provisional). The company has current order book position of ~Rs. 8.50 cr till June 2017.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Feb-2016	Term Loan I	Long Term	INR 0.03	SMERA B / Stable
	Term Loan II	Long Term	INR 4.85	SMERA B / Stable
	Packing Credit	Short Term	INR 16^	SMERA A4
	FOBP/FOUBP	Short Term	INR 5^	SMERA A4
	Gold Card	Short Term	INR 3.2	SMERA A4
	Proposed Fund Based Facilities	Long Term	INR 1.92	SMERA B / Stable/A4

[^]Interchangeability between packing credit and FOBP/FOUBP (Post Shipment credit) with max limit not exceeding Rs 20.00 crore.

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
FOBP/FO UBP	Not Applicable	Not Applicable	Not Applicable	5.40#	SMERA A4
Term loan II	Not Applicable	Not Applicable	31-Mar-2023	3.98	SMERA B / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	16.60#	SMERA A4
Proposed	Not Applicable	Not Applicable	Not Applicable	0.70	SMERA B / Stable
Gold Card	Not Applicable	Not Applicable	Not Applicable	3.32	SMERA A4

Interchangeability between packing credit and FOBP/FOUBP (Post Shipment credit) with max limit not exceeding Rs 22 crore.

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ABOUT SMERA

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