

Press Release

Kanchan Vanijya Private Limited

July 30, 2018

Rating Downgraded and Reaffirmed



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

The rating has been downgraded based on lower than expected revenues and a stretch in the working capital cycle. The revenue has declined sharply from Rs.36.41 crore in FY16 to Rs.24.12 crore in FY18 (Provisional) on account of slowdown of sales in the United Kingdom, since majority of the customers were based in the United Kingdom (UK). The working capital cycle of the company has increased from 223 days in FY16 to 620 days in FY18 (Provisional) on account of increase in inventory days of 232 in FY16 to 602 days in FY18 (Provisional).

Kanchan Vanijya Private Limited (KVPL), incorporated in 1972, is promoted by Mr. Rajeev Gupta, Ms. Rashmi Gupta and Mr. Saurabh Gupta. KVPL is engaged in manufacturing and exporting of leather products like handbags, purses, wallets to name a few. The manufacturing facilities are based in Kolkata with an installed capacity of 3,60,000 pieces per annum.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

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

Weaknesses

- Uneven revenue and profitability trend**

KVPL registered revenue of Rs.24.12 crore in FY18 (Provisional) as against Rs.21.64 crore in FY17 and Rs.36.41 crore in FY16. The profitability margins have also remained uneven as operating margins stood at 14.66 percent in FY18 (Provisional) as against 18.29 percent in FY17 and 11.38 percent in FY16. The net margins also remained unstable at 1.11 percent in FY18 (Provisional) as against 0.95 percent in FY17 and 1.94 percent in FY16. This was mainly on account of poor market conditions in UK which accounts for ~61 percent of their revenue in FY18 (Provisional).

- Working capital intensive operations**

KVPL's operations are working capital intensive marked by high Gross Current Assets (GCA) of 620 days in FY18 (Provisional) as compared to 617 days in FY17 and 308 days in FY16. The high GCA days is dominated by high inventory of 602 days in FY18 (Provisional) as compared to 561 days in FY17. This is due to the high amount of inventory pile up due to slowdown in sales and processing of raw materials. The debtors has remained moderate at 38 days in FY17 as against 39 days in FY18 (Provisional).

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Kanchan Vanijya Private Limited to arrive at the rating.

Outlook: Stable

Acuite believes that the outlook on KVPL will remain 'Stable' over the medium term on the back of experienced management. The outlook maybe revised to 'Positive' in case of sustained increase in operating income and profitability. Conversely, the outlook maybe revised to 'Negative' in case of a further stretch in the company's working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.12	21.64	36.41
EBITDA	Rs. Cr.	3.54	3.96	4.14
PAT	Rs. Cr.	0.27	0.21	0.71
EBITDA Margin	(%)	14.66	18.29	11.38
PAT Margin	(%)	1.11	0.95	1.94
ROCE	(%)	6.93	9.01	20.35
Total Debt/Tangible Net Worth	Times	6.88	6.34	5.55
PBDIT/Interest	Times	1.31	1.29	1.66
Total Debt/PBDIT	Times	11.16	8.78	7.24
Gross Current Assets (Days)	Days	620	617	308

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

Not Available

Any other information

Not Available

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-May-2017	FOBP/FOUP	Short Term	5.40#	ACUITE A4 (Reaffirmed)
	Term Loan II	Long Term	3.98	ACUITE B / Stable (Reaffirmed)
	Packing Credit	Short Term	16.60#	ACUITE A4 (Reaffirmed)
	Proposed	Long Term	0.70	ACUITE B / Stable (Reaffirmed)
	Gold Card	Short Term	3.32	ACUITE A4 (Reaffirmed)
29-Feb-2016	Term Loan I	Long Term	0.03	ACUITE B / Stable (Assigned)
	Term Loan II	Long Term	4.85	ACUITE B / Stable (Assigned)
	Packing Credit	Short Term	16.00*	ACUITE A4 (Assigned)
	FOBP/FOUP	Short Term	5.00*	ACUITE A4 (Assigned)
	Gold Card	Short Term	3.20	ACUITE A4 (Assigned)
	Proposed Working Capital Demand Loan	Long Term	1.92	ACUITE B / Stable/ACUITEA4 (Assigned)

*Interchangeability between packing credit and FOBP/FOUBP (Post Shipment credit) with maximum limit not exceeding Rs. 20.00 crore

Interchangeability between packing credit and FOBP/FOUBP (Post Shipment credit) with maximum limit not exceeding Rs. 22.00 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
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	5.40*	ACUITE A4 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	31-Mar-2023	3.15	ACUITE B- / Stable (Downgraded)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	4.85	ACUITE B- / Stable (Downgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	16.60*	ACUITE A4 (Reaffirmed)

*Interchangeability between packing credit and FOBP/FOUBP (Post Shipment credit) with maximum limit not exceeding Rs. 22.00 crore

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in</p> <p>Shreyans Banthia Analyst - Rating Operations Tel: 022-67141128 shreyans.banthia@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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