

Press Release

KANCHAN VANIJYA PRIVATE LIMITED

June 06, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating to '**ACUITE B-**' (**read as ACUITE B minus**) and the short term rating to '**ACUITE A4**' (**read as ACUITE four**) on the Rs.30.00 crore bank facilities of KANCHAN VANIJYA PRIVATE LIMITED (KVPL).The outlook is '**Stable**'.

The rating continues to reflect experienced management and long track record of operations; however, the rating is constrained by working capital intensive operations and below average financial risk profile.

KVPL, 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.

Analytical Approach

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

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.

KVPL is an established manufacturer and exporter of leather products, having an operational track record of nearly four decades. KVPL exports to large renowned retailers and enjoys long-standing relationship with its customers. The company caters to international fashion houses and retail chains, predominantly in the United States, United Kingdom, Spain and Australia.

Weaknesses

- **Working capital intensive operations**

The KVPL's operations are working capital intensive marked by high Gross Current Assets Days (GCA) of 423 days in FY19 (provisional) as compared to 669 days in FY18 and 617 days in FY16. The high GCA days is dominated by high inventory days of 401 days in FY19 (provisional) as compared to 632 days in FY18 and 561 days in FY17.

- **Weak financial risk profile**

KVPL has weak financial risk profile characterised by weak gearing (debt-to-equity), moderate total outside liabilities to total net worth (TOL/TNW) and strong coverage indicators. Gearing is healthy at 7.31 times as on March 31, 2018 improved from 6.73 times in FY2017.TOL/TNW is weak at around 7.93 times in FY2019 (provisional) against 8.67 times in FY2018. Net worth is moderate at Rs.5.77 crore as on March 31, 2018. The debt-coverage indicators also remain weak as reflected by interest coverage ratio (ICR) of 1.17 times and net cash accrual to total debt (NCA/TD) of 0.01 times for

FY2018. Acuité believes that with weak capital structure and high reliance on debt, the financial risk profile will continue to be at similar levels over the medium term.

Liquidity:

Company has stretched liquidity marked by weak net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.82 to 1.46 crore during the last three years through 2018-19, while its maturing debt obligations were in the range of Rs.1.60 crore over the same period. The cash accruals of the company are estimated to remain around Rs. 9.00 crore against its maturing debt obligations in the range of 1.40 crore. The company's operations are highly working capital intensive as marked by gross current asset (GCA) days of 423 in FY2019. This has led to higher reliance on working capital borrowings; the cash credit limit in the company remains utilized at 98 percent during the last 12 months period ended March 2019. The company maintains unencumbered cash and bank balances of Rs.0.16 crore as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of debt repayments over the medium term.

Outlook: Stable

Acuite believes that the outlook on KVPL will remain 'Stable' over the medium term on back of the experience of 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	FY2019 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	39.54	23.99	21.64
EBITDA	Rs. Cr.	5.56	5.56	4.19
PAT	Rs. Cr.	0.90	0.01	0.21
EBITDA Margin	(%)	14.05	17.47	18.29
PAT Margin	(%)	2.27	0.05	0.95
ROCE	(%)	10.32	8.48	9.07
Total Debt/Tangible Net Worth	Times	7.93	8.67	7.29
PBDIT/Interest	Times	1.44	1.17	1.29
Total Debt/PBDIT	Times	0.96	0.79	0.81
Gross Current Assets (Days)	Days	423	669	617

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.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
30-Jul-2018	Post Shipment Credit	Short Term	5.40	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	3.15	ACUITE B- / Stable (Downgraded)
	Proposed Facilities	Short Term	4.85	ACUITE B- / Stable (Downgraded)
	PC/PCFC	Short Term	16.60	ACUITE A4 (Reaffirmed)
22-May-2017	FOBP/FOUP	Long 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 (Reaffirmed)
	Term Loan II	Long Term	4.85	ACUITE B / Stable (Reaffirmed)
	Packing Credit	Short Term	16.00	ACUITE A4 (Reaffirmed)
	FOBP/FOUP	Short Term	5.00	ACUITE B- / Stable (Reaffirmed)
	Gold Card	Short Term	3.20	ACUITE A4 (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	1.92	ACUITE B+ / Stable/ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan II	Not Applicable	Not Applicable	Not Applicable	3.15	ACUITE B- / Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	16.60	ACUITE A4 (Reaffirmed)
FOBP/FOUBP	Not Applicable	Not Applicable	Not Applicable	5.40	ACUITE A4 (Reaffirmed)
Gold Card	Not Applicable	Not Applicable	Not Applicable	3.32	ACUITE A4 (Reaffirmed)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	4.85	ACUITE B- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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