

Press Release

Kent Industries

February 17, 2017

Rating Assigned

| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 15.00 Cr. |
| Long Term Rating | SMERA BBB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 15.00 crore bank facilities of Kent Industries. The outlook is '**Stable**'.

Kent Industries, established in 2000 is a Delhi-based proprietorship concern set up by Mr. Chirag Gupta. The firm is engaged in the manufacturing of wires, cables, ceiling fans and switches with total installed capacity of 2.5 lakh units per annum. The firm sells its product through distributors and dealers under the Arkaylite and Kent brand names.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

KI was established in 2000. The proprietor, Mr. Ashok Gupta and Mr. Chirag Gupta (son) have extensive experience in the aforementioned industry.

- Healthy financial risk profile**

The rating is supported by healthy financial risk profile marked by comfortable gearing (debt-to-equity) of 0.20 times as on 31 March, 2016 as compared to 0.25 times as on 31 March, 2015. The interest coverage ratio stands healthy at 33.28 times in FY2016 as against 16.23 times in the previous year. SMERA expects the debt protection metrics to remain robust over the medium term on account of healthy net cash accruals and profitability margins. The net profitability margin stood at 7.13 percent in FY2016 as against 4.74 times in the previous year. The ROCE stood at 35.22 per cent in FY2016 as compared to 20.66 percent in the previous year.

- Growth in revenue**

The revenue of the firm increased to Rs.131.70 crore in FY2016 as compared to Rs.83.57 crore in FY2014 with the addition of new products and distributors across the country. The CAGR increased by 25.54 percent within two years i.e. FY2014 to FY2016. However, SMERA notes that around 40 per cent revenue is derived from sale to a group company.

Weaknesses

- Working capital intensive business**

The working capital cycle is stretched marked by high Gross Current Assets (GCA) days of 203 days in FY2016 as compared to 211 days in FY2015.

- Intense competition**

The firm faces intense competition from small and large players which is likely to have an impact on its operating performance and profitability.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

The outlook of the firm is expected to remain stable owing to the experienced promoters and long track record of operations. The outlook may be revised to Positive in case of higher than expected revenues and improvement in its working capital cycle. Conversely, the outlook may be revised to Negative in case of further deterioration in profitability or deterioration in revenues.

About the Rated Entity - Key Financials

For FY2015-16, the company reported profit after tax (PAT) of Rs.9.39 cr on operating income of Rs.131.70 cr as compared with PAT of Rs.5.20 cr on operating income of Rs.109.64 cr in FY2014-15. The net worth stood at Rs.22.85 cr as on 31 March, 2016 against Rs.22.18 cr a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|---------------------|
| Cash credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA BBB- / Stable |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA BBB- / Stable |

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