

## Press Release

### Karomas Aromatics (KA)

November 26, 2019



### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs. 8.80 Cr.
<b>Short Term Rating</b>	ACUITE A4+ (Upgraded from ACUITE A4)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded short-term rating to '**ACUITE A4+** (read as **ACUITE A four plus**) from '**ACUITE A4** (read as **ACUITE A four**) on the Rs. 8.80 crore bank facilities of Karomas Aromatics.

Karomas Aromatics (KA) is a Bangalore (Karnataka) based proprietorship concern established in 2017 by Mr. Rajesh Talesara. The firm is engaged in trading of aromatic chemicals used in incense sticks, perfume, soaps and tobaccos, procured from China, Japan, Spain and other countries. The rating upgrade reflects the improvement in performance over last couple of years in operating revenue. The firm's operating revenue increased to Rs. 72.40 crore in FY 19 as compared to Rs. 47.51 crore in FY 18 thereby achieving a y-o-y growth rate of 56.20 per cent. Further, the working capital management has improved as reflected from Gross Current Assets (GCA) days of 151 days in FY 19 as compared to 177 days in FY18 and 502 days in FY 17.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of KA to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Experienced management**

Karomas Aromatics is a Bangalore based proprietorship concern established in 2017 by Mr. Rajesh Talesara. The firm is engaged in trading of aromatic chemicals used in agarbatti, perfume, soaps and tobaccos. The proprietor has two decades of experience in the same line of business. Before setting up the proprietorship firm, Mr. Talesara was managing a partnership firm in the name of Karnataka Aromas since 1997. Mr. Talesara in 2017 discontinued as a partner in Karnataka Aromas. The long experience of the promoters has helped the company to establish comfortable relationship with their customers as well as suppliers.

- **Moderate financial risk profile**

The firm's financial risk profile is marked by its modest net worth, comfortable gearing and healthy debt protection metrics. The tangible net worth stood at Rs.9.11 crore as on 31st March, 2019 as against Rs 6.49 crore in the previous year. The gearing stood comfortable at 1.19 times as on 31st March, 2019 as against 1.29 times in as on 31st March, 2018. The total debt of Rs 10.87 crore as on 31st March, 2019 consists of unsecured loan from proprietor of Rs 3.24 crore and short term debt of Rs 7.63 crore. The Total Outside Liabilities/ Tangible Networth (TOL/TNW) stood at 2.45 times as on 31st March, 2019 as against 2.65 times in the previous year. The Interest coverage ratio and debt service coverage ratio stood healthy at 7.06 times and 10.29 times respectively in FY2019 compared to 6.73 times and 10.29 times in FY2018. The NCA/TD stood at 0.45 times in FY19. Acuité expects the financial risk profile to improve in absence of major long term debt obligations and improving accruals.

#### Weaknesses

- **Limited track record of operation**

The operation of KA started operations from 2017 with revenue of Rs 5.05 crores in FY 17. However, the firm has recorded operating revenue of Rs 74.20 crore in FY 19 with an operating margin of 7.67 percent in the same period. Moreover, the company has booked revenue of Rs 41.20 till mid of November, 2019 (Provisional).

- **Working capital intensive nature of business**

The firm's operations are working capital intensive in nature as reflected in the Gross Current Assets (GCA) days of 151 days in FY 19 as against 177 days in the previous year. These high Gross Current Assets (GCA

days emanates from high debtor days of 116 days in FY 19 as compared to 133 days in FY 18 on account of delay in realization. Further, the inventory days stood at 36 days in FY 19 as against 44 days in FY 18.

#### **Rating Sensitivity**

- Substantial growth in revenue coupled with improving profitability
- Improvement in working capital management

#### **Material Covenants**

None

#### **Liquidity Profile**

KA has adequate liquidity as evident from moderate net cash accruals as against no major long term debt obligations. The firm generated cash accruals of Rs 4.86 crore in FY 19 which is estimated to increase over the medium term on account of improving scale of operation. The bank limit in the company remains ~46 percent utilized during the last seven months ended on October, 2019. The firm's operations are working capital intensive as marked by Gross Current Assets (GCA) days of 151 days in FY 19. The current ratio of the firm stood comfortable at 1.65 times as on 31st March, 2019. The liquidity is expected to remain adequate over the medium term on account of improvement in operating revenue.

#### **Outlook: Stable**

Acuité believes that the outlook on Karomas Aromatics will remain 'Stable' over the medium term backed by its experienced management and moderate financial risk profile. The outlook maybe revised to 'Positive' in case of higher than expected revenue and improvement in working capital management. However, the outlook maybe revised to 'Negative' in case of decline in the scale of operations coupled with deterioration financial risk profile.

#### **About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	74.20	47.51	5.05
EBITDA	Rs. Cr.	5.69	3.82	0.30
PAT	Rs. Cr.	4.85	3.45	0.29
EBITDA Margin	(%)	7.67	8.05	5.86
PAT Margin	(%)	6.54	7.27	5.83
ROCE	(%)	34.33	48.67	67.56
Total Debt/Tangible Net Worth	Times	1.19	1.29	-
PBDIT/Interest	Times	7.06	10.29	173.53
Total Debt/PBDIT	Times	1.82	2.18	-
Gross Current Assets (Days)	Days	151	177	502

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

None

#### **Any other information**

Not Applicable

#### **Applicable Criteria**

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Crore)	Ratings/Outlook
16-Oct-2018	Foreign Letter of Credit	Short Term	8.80 (Enhanced from Rs 5.80 crore)	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE B/Stable (Withdrawn)
22-Jul-2017	Proposed Cash Credit	Long Term	3.00	ACUITE B/Stable (Assigned)
	Proposed Letter of Credit	Short Term	5.80	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
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.80	ACUITE A4+

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**About Acuité Ratings & Research:**

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