

Press Release

Karomas Aromatics

February 19, 2021

Rating Reaffirmed



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs.8.80 Cr. |
| Short Term Rating | ACUITE A4+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.8.80 Cr. bank facilities of Karomas Aromatics.

About the Entity

Karomas Aromatics (KA) is a Bangalore based proprietorship concern established in 2017 by Mr. Rajesh Talesara. The firm is engaged in trading of aromatic chemicals used in Incense Sticks, perfumes, soaps and Sanitizers.

Analytical Approach

Acuite has considered the standalone view of the 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 incense sticks, perfume, soaps and Sanitizers. The proprietor has two decades of experience in the same line of business. Before setting up the proprietorship concern, Mr. Talesara was managing a partnership firm known as Karnataka Aromas since 1997. Mr. Talesara in 2017 has discontinued as a partner in Karnataka Aromas. The long standing experience of the proprietor has helped the firm establish a comfortable relationship with their customer as well as their supplier base.

Acuite believes that KA will continue to benefit from the proprietor's experience in the industry in the near to medium term.

• Moderate financial risk profile

The financial risk profile of the firm stood moderate marked by moderate net worth (Proprietors Capital), comfortable gearing and deteriorating yet moderate coverage indicators.

The tangible net worth of the firm stood at Rs.10.62 Cr. as on March 31, 2020 as against Rs.9.11 Cr. as on March 31, 2019 on the back of accretion to reserves. The firm follows a comfortable financial policy reflected by its improved gearing (Debt to Equity) of 0.60 times as on March 31, 2020 as against 1.19 times as on March 31, 2019. The debt profile consist of unsecured loans of Rs.4.22 Cr. from the proprietor's family members which are withdrawable at will and short term debt of Rs.2.13 Cr. as on March 31, 2020. The total outside liabilities to total net worth (TOL/TNW) ratio stood at 1.82 times as on March 31, 2020 as against 2.45 times as on March 31, 2019.

The debt protection metrics of the firm remain at moderate levels even after witnessing decline marked by the interest coverage ratio (ICR) and debt-service coverage ratio (DSCR) of 4.66 times in FY2020 as against ICR of 7.06 times and DSCR of 6.73 times in FY2019, deterioration in these metrics can be attributed to the decline in revenue in FY2020 vis-à-vis FY2019. The net cash accruals to total debt (NCA/TD) stands comfortable at 0.47 times for FY2020. The firm reported declining yet adequate net cash accruals (NCA) of Rs.3.00 Cr. in FY2020 as against Rs.4.86 Cr. in FY2019. The cash accruals are expected to remain in the range of Rs.3.00 Cr. to Rs.5.00 Cr. in near to medium term.

Weaknesses

• Intensive Working capital requirements

The working capital requirements remain intensive marked by Gross Current Asset (GCA) of 162 days in FY2020 as against 151 days in FY2019. The entity has historically had such levels of GCA primarily on account of increase in Debtors to 129 days in FY2020 as against 116 days in FY2019, and Inventory of 33 days in FY2020 as against 36 days in FY2019.

On the other hand, the Creditors stood at 77 days in FY2020 as against 63 days in FY2019. The firm has had moderate utilization of its bank lines at an average of ~49 per cent for the 7 month period ended January, 2021.

Acuite believes that any further deterioration in the working capital management of FPL will remain key rating sensitivity factor

• Limited track record of operation

The operation of KA started operations from 2017 with revenue of Rs.5.05 Cr. in FY2017. However, the firm has recorded operating revenue of Rs.65.76 Cr. in FY2020 with an operating margin of 5.74 percent in the same period. Moreover, the company has booked revenue of Rs.65.00 Cr. during the April 2020 to January 2021 period.

Liquidity position: Adequate

Liquidity is marked by declining yet adequate net cash accruals (NCA) to the tune of Rs.3.00 Cr. in FY2020 against NIL repayment obligations. The current ratio stands at 1.98 times while the Gross Current Asset (GCA) days stand at 162 days in FY2020. The firm has unencumbered cash and bank balances of Rs.0.08 Cr. as on March 31, 2020. The firm's reliance on working capital limits stand moderate; with facility being utilized at ~49 percent during the 7 months ended January 2021. The net cash accruals (NCA) of KA are estimated to remain healthy during FY2021 to 2023 in the range of Rs.3.00 Cr. to Rs.5.00 Cr.

Acuite believes that the liquidity of the firm is expected at similar levels in the near to medium term in the absence of significant revenue gains expected and repayment obligations.

Rating Sensitivities

- Improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook

Not Applicable

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 65.76 | 74.20 |
| PAT | Rs. Cr. | 2.99 | 4.85 |
| PAT Margin | (%) | 4.55 | 6.54 |
| Total Debt/Tangible Net Worth | Times | 0.60 | 1.19 |
| PBDIT/Interest | Times | 4.66 | 7.06 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|------------------------------|
| 26-Nov-2019 | Foreign Letter of Credit | Short Term | 8.80 | ACUITE A4+ (Upgraded) |
| 16-Oct-2018 | Cash Credit | Long Term | 3.00 | ACUITE B (Withdrawn) |
| | Foreign Letter of Credit | Short Term | 8.80 | ACUITE A4 (Reaffirmed) |
| 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+ (Reaffirmed) |

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About Acuité Ratings & Research:

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