

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

Acuité 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

Acuité 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.

Acuité 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.

Acuité 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.

Acuité 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)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022 – 49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022 – 49294011 rating.desk@acuite.in
Aditya Sahu Analyst – Rating Operations Tel: 022 – 49294055 aditya.sahu@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,548 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Acuité's rating scale and its definitions.