

Press Release

Krishna Enterprises

August 09, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) on the Rs. 10.00 crore bank facilities of Krishna Enterprises. The outlook is '**Stable**'.

Krishna Enterprises was established in the year 1991 by Mr. Devendra Seth. Currently, his sons, Mr. Ajay Seth & Mr. Sanjay Seth, look after the business. Mr. Ajay Seth looks after the commercial aspect of the business and Mr. Sanjay Seth looks after the technical aspect of the business. The firm is engaged in the manufacturing of machine components used in the engineering sector. The company has its own manufacturing facility where it has the capacity and resources to manufacture 700 different types of components based on the specification and customization set by the client. The firm targets revenue of Rs. 65.00 crore for FY2019.

Key Rating Drivers

Strengths

- **Experienced Management**

Krishna Enterprises was established in 1991 by Mr. Devendra Seth, the proprietor of business. Currently, his sons, Mr. Ajay Seth and Mr. Sanjay Seth, the 2nd generation of the Seth family, are looking after the firm. Being in the business for more than 2 decades, the firm has successfully managed to establish deep business relations with its major clients for more than 10 years and continues to grow & establish relations with new clients. Having an experienced management looking after the firm will help it grow in the future.

- **Moderate financial risk profile**

The financial risk profile of Krishna Enterprises is marked by tangible net worth of Rs. 13.29 crore as on 31 March, 2018 (Provisional) which includes unsecured loans from promoters of Rs. 13.59 crore as compared to a tangible net worth of Rs. 9.07 crore as on 31 March, 2017, which includes unsecured loans from promoters of Rs. 5.16 crore. The gearing (debt-equity) stood at 1.41 times as on 31 March, 2018 (Provisional) as compared to 0.81 times as on 31 March, 2017. The interest coverage ratio (ICR) and the debt service coverage ratio (DSCR) stood moderate at 6.90 times in FY2018 (Provisional) and 8.18 times in FY2017.

- **Steady growth in revenue & margins**

The firm has observed a steady growth in revenue over the years. From a revenue of Rs. 16.99 crore in FY2015, the firm has observed a steady growth to earning Rs. 45.38 crore for FY2018 (Provisional). The compounded annual growth rate (CAGR) of the company stands at a healthy ~ 39 per cent over the last 3 years. Going ahead, maintaining this steady growth in revenues will be important for the firm. The net cash accruals for FY2018 (Provisional) stood at Rs. 8.24 crore.

Weaknesses

- **Working capital intensive operations**

KE's operations are working capital intensive marked by high Gross Current Assets (GCA) of 177 days in FY2018 (Provisional) as compared to 130 days in FY2017. The GCA days are mainly dominated by high debtor days of 122 in FY2018 (Provisional) compared to 118 days in FY2017. The average working capital utilization for the past six months stood at ~ 98 - 100 percent. Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit

profile.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Krishna Enterprises to arrive at the rating.

Outlook: Stable

Outlook: Stable Acuite believes that the outlook of Krishna Enterprises will remain 'Stable' over the medium term on account of the experience of the management and long established relationship with its clients. The outlook may be revised to 'Positive' in case of significant improvement in the working capital cycle while improving revenues and sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in working capital cycle leading to stretch in liquidity and impacting margins.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	45.38	31.85	23.61
EBITDA	Rs. Cr.	9.62	6.58	3.49
PAT	Rs. Cr.	5.91	4.45	1.58
EBITDA Margin	(%)	21.19	20.65	14.77
PAT Margin	(%)	13.02	13.99	6.68
ROCE	(%)	30.12	36.05	20.09
Total Debt/Tangible Net Worth	Times	1.41	0.81	1.44
PBDIT/Interest	Times	6.90	8.18	4.62
Total Debt/PBDIT	Times	1.95	1.12	2.15
Gross Current Assets (Days)	Days	177	130	145

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

Not Applicable

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>
- 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)

Not Applicable

*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 loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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