

## Press Release

### KWALITEE FABS

December 28, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 10.00 Cr.
<b>Long Term Rating</b>	SMERA B+ / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 10.00 crore bank facilities of KWALITEE FABS. The outlook is '**Stable**'.

Established in 2002, Kwalitee Fabs (KF) manufactures and exports home textile products such as table cloth, kitchen towel, curtains, napkin, and bed spreads among others. The daily operations of the company are managed by Mr. RA Kamaraj, who possess two decades of experience in the textile industry. The concern has an installed capacity of 16 lakh square metre/ month as on 31 March 2017.

### Key Rating Drivers

#### Strengths

- **Experienced management**

The firm is promoted by Mr. RA Kamaraj, who possesses two decades of experience in the textile industry. The extensive experience of the promoter has helped the entity establish long standing relationships with its customers

- **Established customer relationships and proximity to raw materials**

The firm is an export oriented unit (EOU). It mainly exports home textile products to countries like USA, Hong Kong, Netherlands, Germany, and United Kingdom among others. Its clients include Mud Pie LLC, Ever Best, and Lemetex among others. The processing facility of the concern is located in Karur (Tamil Nadu), which is a textile hub in proximity to raw material sources.

#### Weaknesses

- **Average financial risk profile**

The average financial risk profile is marked by low net worth, moderately high gearing levels and moderate debt protection metrics. Net worth levels improved to Rs 4.82 crore in FY2017 from Rs 3.53 crore in FY2016 due to retention of profits and promoter's equity infusion of Rs.0.69 crore. The gearing levels improved from 2.00 times in FY2016 to 1.71 times in FY2017 (still moderately high) due to increase in net worth levels. However, gearing levels remained moderately high in FY2017. The total debt majorly consists of working capital borrowings. The interest coverage ratio (ICR) stood at 2.45 times in FY2017 as compared to 1.92 times in FY2016. The net cash accruals to total debt (NCA/TD) increased to 0.12 times in FY2017 from 0.08 times in FY2016.

- **Moderate scale of operations**

Despite being in the home textile business for more than a decade, the scale of operations remains modest with operating income of Rs 24.66 crore in FY2017. The concern has an order book of Rs 13.81 crore to be executed within the next three months ending February 2018 and generated an operating income of Rs 14.40 crore during April to October 2017 period (provisional).

- **Operating profitability susceptible to volatility in raw material prices**

The operating margins of KF are susceptible to volatility in raw material prices (Yarn). However, the

EBITDA margin has marginally increased from 4.95 per cent in FY2016 to 6.62 per cent in FY2017 due to decrease in raw material prices.

### Analytical Approach

SMERA has considered the standalone business and financial risk profiles of KF to arrive at the rating.

### Outlook: Stable

SMERA believes KF will maintain a stable business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers growth in revenues while maintaining better profit margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenue and profitability, or in case of deterioration in the company's financial risk profile.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.66	23.59	20.43
EBITDA	Rs. Cr.	1.63	1.17	0.76
PAT	Rs. Cr.	0.60	0.40	0.29
EBITDA Margin	(%)	6.62	4.95	3.74
PAT Margin	(%)	2.43	1.71	1.44
ROCE	(%)	10.70	11.85	23.01
Total Debt/Tangible Net Worth	Times	1.71	2.00	1.72
PBDIT/Interest	Times	2.45	1.92	1.88
Total Debt/PBDIT	Times	5.05	6.03	4.81
Gross Current Assets (Days)	Days	187	156	142

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

None

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.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. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA B+ / Stable

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## ABOUT SMERA

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