

Press Release

Keshari Industries Limited (KIL)

22 January, 2018



Rating Assigned

Total Instruments Rated*	Rs.8.00 Cr
Long Term Rating	SMERA B+/Outlook: Stable

**Refer Annexure for details*

Draft Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) on the above mentioned facility of Keshari Industries Limited (KIL). The outlook is '**Stable**'.

Keshari Industries Limited (KIL) incorporated in 1992, promoted by Mr. Laxmi Narayan Mundhra and Mr. Gopal Kishan Lahoti, who have an experience of over three decades in the same line of business of manufacturing and supplying shirting fabrics of linen, polyester and cotton for men's and ladies wear. The company has started its manufacturing operations from FY13, till that the company was engaged in Job Work Processes and Trading of Finished Fabrics.

List of key rating drivers and their detailed description

Strengths

Experienced Management

Keshari Industries Limited (KIL) incorporated in 1992, promoted by Mr. Laxmi Narayan Mundhra and Mr. Gopal Kishan Lahoti, who have an experience of over three decades in the same line of business of manufacturing and supplying shirting fabrics of linen, polyester and cotton for men's and ladies wear.

Improvement in Operating Revenues

The revenues have improved from Rs.8.26 Crore in FY16 to Rs.15.80 Crore in FY17. The improvement in revenue is mainly because KIL has compromised on its margins. The operating margins have declined from 12.62% in FY16 to 7.03% in FY17. KIL has shifted its focus solely from Job work and Trading to Manufacturing as well since FY13 due to which margins are affected.

Favourable government policies

The improvement in revenue can also be attributed to favorable textile sector policies of both Central and State Government. The industry is benefitting from various government incentives under Technology Upgradation Fund Scheme (TUFS) from central government and Gujarat Textile Policy – 2012 from state government.

Moderate financial risk profile

The financial risk profile of KIL is moderate marked by net worth of Rs.3.17 crore. Gearing stood at 1.37 times as on March 31, 2017. The gearing is on account of unsecured loans from directors and related parties. Secured long term debt stood at Rs.0.67 Crore, while unsecured loans from directors and related parties stood at Rs.5.19 Crore as on 31st March, 2017. These unsecured loans do not have any scheduled repayment. ICR stood at 1.80 times in FY17. DSCR stood at 0.94 times in FY17 compared to 1.06 times in FY16. KIL has an average bank limit utilisation of 90%.

Weaknesses

Highly competitive and fragmented industry

KIL operates in a highly competitive and fragmented industry with large number of organized and unorganized players in the market.

Susceptible to raw material volatility

The margins are susceptible to volatility in yarn prices. The Raw materials cost comprise of approximately 70% of the Operating Revenue.

Working capital intensive nature of business

The operation of the firm is working capital intensive in nature marked by GCA days of 189 days in FY2017 compared to 346 days in FY2016. This was on account of high debtors of 128 days in FY2017 (PY: 146 days) and high inventory of 63 days FY2017 (PY: 174 days).

Analytical approach: SMERA has considered the standalone business and financial risk profile of KIL.

Outlook - Stable

SMERA believes that KIL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues amidst intensifying competition in its area of operation, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements and capital expenditures.

About the Rated Entity - Key Financials

Particulars	Unit	FY17	FY16	FY15
Operating Income	Rs. Cr.	15.80	8.26	3.61
EBITDA	Rs. Cr.	1.11	1.04	1.29
PAT	Rs. Cr.	0.01	0.04	0.09
EBITDA Margin	(%)	7.03	12.62	35.82
PAT Margin	(%)	0.06	0.50	2.55
ROCE (%)	(%)	6.65	6.15	26.30
Total Debt/Tangible Net Worth	Times	1.37	1.57	1.56
PBDIT/Interest	Times	1.80	1.95	2.77
Total Debt/PBDIT	Times	4.63	5.66	2.11
Gross Current Assets (Days)	Days	189	346	77

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

CARE has in its press release dated January 09, 2018 had inter-alia mentioned the following: CARE has been seeking information from Keshari Industries Limited to monitor the ratings vide e-mail communications/ letters dated October 18, 2017, November 9, 2017, December 8, 2017, December 23, 2017 and numerous phone calls. However, despite our repeated requests, the entity has not provided the requisite information for monitoring the ratings. In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating. In line with the extant SEBI guidelines CARE's rating on Keshari Industries Limited's bank facilities will now be denoted as CARE B+/CARE A4; ISSUER NOT COOPERATING.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Available	Not Available	Not Available	0.70	SMERA B+ / Stable
Term Loan	Not Available	Not Available	Not Available	0.17	SMERA B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Available	5.00	SMERA B+ / Stable
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	2.13	SMERA B+ / Stable

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in Aditi Shah, Rating Analyst, Tel: +91-22-6714 1371 Email: aditi.shah@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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