

Press Release

KRISHNA BEADS INDUSTRIES

March 22, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

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

Established in 1970 as a partnership firm, Krishna Beads Industries (KBI), is engaged in manufacturing of bags, imitation jewellery, scarves, etc for various international companies like Forever 21, Zara, Primark, Euro Fashion, etc. KBI has its plant in Mumbai and Noida. The partners are Mr. K.G. Maheshwari and his spouse Mrs. Rani Maheshwari. The firm has recently entered into footwear manufacturing segment for various brands and it is also setting up a project for manufacturing garments to be sold in India under their own brand name.

Key Rating Drivers

Strengths

- **Experienced management with long track record of operations**

The promoters, Mr. K.G. Maheshwari and Rani Maheshwari have more than two decades of experience in the industry and have developed healthy relations with customers and suppliers. This has helped in getting repeat orders and favorable credit terms from suppliers. SMERA believes that the company will continue to benefit from its promoters' extensive industry experience over the long term.

- **Established relationship with reputed customers**

KBI has established relationship with its customers for more than a decade. Its customers are widely recognized brands in fashion industry like Zara, Forever 21 Euro fashions, etc. KBI also sells its products to Walmart.

- **Efficient working capital cycle management**

KBI has efficiently managed its working capital cycle by maintaining its GCA (gross current asset) of 112 days on an average of past 3 years.

Weaknesses

- **Revenue decline due to customer churn**

The revenue of the firm has declined from Rs.122.96 crore FY 15-16 to Rs. 82.14 crore in FY16-17 due to shift of two major customers namely, Primer and Next group due change in management policies of these companies.

- **Competitive and fragmented industry**

The fashion accessories industry is marked by presence of various small and big players. In FY 16-17, major portion of revenue was from job work done for famous brands like Zara, Euro Fashion, Forever 21, etc which were exported. From FY 17-18 KBI is all set to enter in domestic industry as well with apparel range for upper middle and premium class. KBI will face intense completion from established brands catering to same class of customers.

• Declining profitability margins and loss in fiscal17

The financial risk profile of KBI is moderate marked by networth of Rs.18.79 crore as on 31 March 2017 as reduced from Rs.20.43 crore in FY 15-16. The debt-equity increased to 0.41 times as on 31 March, 2017 from 0.29 times as on 31 March, 2016. The debt mainly consists of working capital facilities. The EBITDA declined from 8.51 percent in FY 15-16 to 0.07 percent in FY 16-17. Due to loss in FY 16-17 the Debt Service coverage Ratio declined from 5.60 times in FY 15-16 to 0.32 times in FY 16-17. Similarly Interest Coverage Ratio declined from 7.65 times in FY15-16 to 0.21 times in FY 16-17 . As Informed by the management, KBI has booked revenue of ~ Rs.69.00 crore till January 2018.

Analytical Approach

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

Outlook: Stable

SMERA believes that KBI will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company generates substantial and sustainable revenues or operating margins while maintaining its above-average financial risk profile. Conversely, the outlook may be revised to 'Negative' if the working capital cycle elongates or loss of major customers.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	82.14	122.96	111.33
EBITDA	Rs. Cr.	0.06	10.46	10.07
PAT	Rs. Cr.	-1.57	5.58	6.08
EBITDA Margin	(%)	0.07	8.51	9.04
PAT Margin	(%)	-1.92	4.54	5.46
ROCE	(%)	-2.48	39.62	82.93
Total Debt/Tangible Net Worth	Times	0.41	0.29	0.45
PBDIT/Interest	Times	0.21	7.65	11.33
Total Debt/PBDIT	Times	39.59	0.55	0.70
Gross Current Assets (Days)	Days	128	108	99

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

None

Any other information

None

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>

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
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Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB+ / Stable

Contacts

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ABOUT SMERA

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