

Press Release

Kauten Kraft

October 31, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.50 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) to the Rs. 5.50 crore bank facilities of Kauten Kraft (KK). The outlook is '**Stable**'.

Kauten Kraft (KK) is a company based at Gurgaon established in the year 2015. It is engaged in the manufacturing and exporting of readymade fashion garments. The company is a 100% export oriented unit. The manufacturing facility is located at Gurgaon. KK exports to countries like U.S. and Europe among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KK to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

The partners are involved in the functional areas of the business, and established longstanding relationship with suppliers and customers which helped in getting repeat orders from its clientele. It helped in improving the revenues at a compound annual growth rate (CAGR) of 27.00 percent over three years ending FY2018. The firm has healthy relationship with the suppliers for procurement of raw materials (fabrics and grey cloth). Acuité believes that the firm is expected to benefit from the promoters' experience in improving its business risk profile over the medium term.

Weaknesses

- **Foreign exchange fluctuation risk**

KK is currently a 100% export oriented unit. It exports to countries such as U.S and Europe among others. It faces a foreign exchange fluctuation risk. Though the company uses ECGC (Export Credit Guarantee Corporation) to provide credit guarantee on the default of payments by the foreign buyer to mitigate the risk of foreign exchange.

- **Below average financial risk profile**

The financial risk profile of the firm is below average marked by high gearing (debt-to-equity) and high total outside liabilities to total net worth (TOL/TNW). The gearing stood high at 5.02 times as on March 31, 2018, deterioration from 4.90 times as on March 31, 2017 owing to moderate capex executed. TOL/TNW is at 8.28 times as on March 31, 2018 as against 10.92 times as on March 31, 2017. The net worth is low and stood at Rs.1.17 crore as on March 2018. The debt protection metrics are moderate as interest coverage ratio (ICR) stood at 1.87 times and net cash accruals to total debt (NCA/TD) stood at 0.05 times in FY2018. Acuité believes that the financial profile of the firm is expected to be at similar levels over the medium term in the absence of significant debt funded capex plans.

- **Working capital intensive nature of operations**

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 526 days in FY2018 and 97 days in FY2017; they are expected to be at similar levels due to the time taken for

manufacture, staggered deliverables to its clientele and maintenance of inventory for increasing volumes. The inventory days over the past three years have been at about 271 days and receivable days are around 200 days.

Outlook: Stable

Acuite believes the outlook on Kauten Kraft (KK) will remain 'Stable' over the medium term on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	4.52	9.40	2.12
EBITDA	Rs. Cr.	0.62	0.28	0.12
PAT	Rs. Cr.	0.15	0.17	0.10
EBITDA Margin	(%)	13.74	2.93	5.56
PAT Margin	(%)	3.32	1.78	4.74
ROCE	(%)	10.30	15.14	62.80
Total Debt/Tangible Net Worth	Times	5.02	4.90	-
PBDIT/Interest	Times	1.87	9.08	196.34
Total Debt/PBDIT	Times	9.44	6.30	-
Gross Current Assets (Days)	Days	526	97	135

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B- / Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B- / Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuите.in</p> <p>Sanket Kotkar Analyst - Rating Operations Tel: 02249294073 sanket.kotkar@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuите.in</p>

About Acuite Ratings & Research:

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