

Press Release

Kunnam Granite Works

December 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 15.00 crore bank facilities of Kunnam Granite Works (KGW).

Established in 1992, Kunnam Granite Works (KGW) is a Chennai (Tamil Nadu) based entity, promoted by Mr. GR Srinivasan and Mr. R. Saravanan. The entity is engaged in the business of exporting dimensional granite blocks. The entity exports to countries such as China, Taiwan, Bosnia & Herzegovina, among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KGW to arrive at the rating

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

The promoters have more than three decades of experience in exporting of dimensional granite blocks. The entity exports to China, Taiwan and European countries and currently, has orders to an extent of Rs.17.00 crore to be executed over the next two quarters. Acuité believes that the entity will continue to benefit from the promoters experience in the business.

- Moderate financial risk profile**

The financial risk profile is marked by moderate total outside liabilities to total net worth (TOL/TNW) and gearing (debt-to-equity), though constrained by modest debt protection metrics. TOL/TNL is moderate at 1.07 times as on March 31, 2018 as compared to 1.06 times in FY2017. Gearing is moderate at 1.07 times as on March 31, 2018 as compared to 1.06 times in FY2017. The net worth is modest at Rs. 10.84 crore as on 31 March, 2018 compared to Rs. 10.76 crore as on 31 March, 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are modest at 1.35 times and 0.01 times respectively for FY2018. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

- Intense working capital operations**

The entity has intense working capital operations as evident from its Gross Current Assets (GCA) of 211 days as on March 31, 2018 as against 173 days as on March 31, 2017. High GCA is owing to high amount of advances given to the suppliers / quarries for procurement of various varieties of granite blocks. The firm enjoys packing credit limits for material purchase and exports, and the limits have been highly utilised at about 87 percent for 6 months through September, 2018. The supplies are against LC at sight and realises the payment in short period of time. Acuité believes that the working capital operations will remain intensive over the medium term due to advance payment for procurement of material.

- Volatile revenue profile with thin profitability margins**

The operating income declined from Rs.41.33 crore in FY2016 to Rs.31.66 crore in FY2018 due to non-availability of quality material, and slowdown in the off-take from importing nations. Further, its profitability margins are thin at 4 percent with modest accruals. Acuité believes that the revenue profile and margins are susceptible to availability of quality and client specified blocks, besides

economic and construction activity at clients end and forex risk.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	31.66	37.89	41.33
EBITDA	Rs. Cr.	1.25	1.38	2.06
PAT	Rs. Cr.	0.11	0.38	0.83
EBITDA Margin	(%)	3.96	3.65	4.99
PAT Margin	(%)	0.36	1.01	2.01
ROCE	(%)	4.69	6.44	8.87
Total Debt/Tangible Net Worth	Times	1.07	1.06	0.75
PBDIT/Interest	Times	1.35	1.79	2.82
Total Debt/PBDIT	Times	10.55	8.19	3.99
Gross Current Assets (Days)	Days	211	173	143

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
Pre- Shipment Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4

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About Acuité Ratings & Research:

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