

Press Release

Pawankumar Kedia And Co

January 07, 2020

Rating Downgraded



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB / Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE BB**) to the Rs. 30.00 crores bank facilities of PAWANKUMAR KEDIA AND CO. (PKC). The outlook is '**Stable**'.

The downgrade in the rating is on account of delinquency in major receivables. The group has receivables of Rs. 36.04 crores that are outstanding for more than six months. This has led to elongation of working capital cycle. The debtor days stood at 80 in FY2019.

PKC is engaged in the business of trading cotton yarn. The registered office of the firm is located at Mumbai (Maharashtra). The firm was incorporated in November 2016 by the Kedia family.

Analytical Approach

Acuite has consolidated the business and financial risk profile of Pawankumar Kedia & Co. and Kedia Texfab and Industries Private Limited together referred to as the 'Kedia Group' to arrive at the rating. The consolidation is on account of common management, similar line of business and operational synergies.

Key Rating Drivers

Strengths

- **Extensive business experience of the promoter**

The promoter, Mr. Pawankumar Kedia and family have been involved in the cotton trading industry for past two decades through its group company, Kedia Enterprises. Being into similar line of business for so long, they have developed significant industry insights and developed healthy relations with its customers and suppliers. Acuite believes that the group will sustain its existing business risk profile on the back of promoters' extensive industry experience and the long-standing relations with its customers and suppliers.

- **Average financial risk profile**

Kedia group's financial risk profile is moderate marked by healthy tangible net worth, comfortable gearing and moderate debt protection metrics. Net worth of the group stood at Rs.76.27 crore (includes interest bearing (12 percent) quasi capital of Rs.38.12 crore) against Rs.63.84 crore in earlier year (includes interest bearing (12 percent) quasi capital of Rs.40.66 crore). The gearing (debt to equity) is comfortable and stood at 0.44 times as on March 31, 2019 against 0.63 times in earlier year. Total debt of Rs. 33.50 crore includes cash credit facilities from the bank. Interest Coverage Ratio (ICR) is moderate at 1.76 times for FY2019 against 1.45 times for the previous year. Similarly, Debt Service Coverage Ratio (DSCR) stood at 1.62 times for FY2019 against 1.37 times for the previous year. NCA/TD ratio stood at 0.20 times as on 31 March 2019.

Weaknesses

- **Thin net profit margins**

Operating margins of the group stood stable at 2.20 percent in FY19 against 2.22 percent in the previous year. Given the trading nature of business, net profit margins remained thin at 1.02 percent in FY19.

• **Profits are susceptible to fluctuations in raw material prices and high competition**

The group's margins are highly susceptible to changes in cotton prices. Price of cotton is stated by government through minimum support price (MSP). However, the purchase price depends on the prevailing demand-supply situation, which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further affects the profitability. Material cost is ~97 percent of total operating income in FY2019. The group is operating in highly competitive and fragment textile industry, which further affects its profitability.

Rating Sensitivities

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by net cash accruals in the range of Rs. 3.00 – 7.00 crore against no repayment obligations during last three years ended FY2019. The working capital operations are moderate marked by gross current asset (GCA) days of 87 in FY2019 as compared to 105 days in FY2018. The cash credit limit of the company remains utilized at ~65 per cent during the last six months period ended November 2019. The unencumbered cash and bank balances stood at Rs. 0.13 crore as on March 31, 2019. The current ratio stood at 1.89 times as on March 31, 2019. Acuite believes that the liquidity of the company will remain adequate owing to improving net cash accruals, no debt repayment obligations and unutilized balances in working capital facilities.

Outlook: Stable

Acuite believes that the group will maintain a stable outlook over the medium term owing to its experienced management and established position in the market. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while maintaining profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	655.23	571.83
PAT	Rs. Cr.	6.66	3.65
PAT Margin	%	1.02	0.64
Total Debt / Tangible Net Worth	Times	0.44	0.63
PBDIT / Interest	Times	1.76	1.45

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading entities - <http://acuite.in/view-rating-criteria-6.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings / Outlook
08-Jan-2019	Cash Credit	Long Term	30.00	ACUITE BB / Stable (Assigned)

*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	30.00	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)

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About Acuité Ratings & Research:

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