Press Release

Krishna Alkali Bombay Private Limited

March 12, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** to the Rs. 15.00 crore bank facilities of Krishna Alkali Bombay Private Limited (KAPL). The outlook is **'Stable'**.

KAPL was incorporated in 1980 by Mr. Ashok Maheshwari and family. KAPL is engaged in printing and dyeing of fabrics. In 2005, the company started digital printing with an installed capacity of 9000 meters per day. KAPL also caters to export markets including UK, Europe and Dubai to name a few. KAPL has two units one for processing at Dombivali in Thane and the second unit for printing at Kalyan in Thane.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KAPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

  KAPL was incorporated in 1980 by Mr. Ashok Maheshwari and family. Mr. Ashok Maheshwari (Chairman and Managing Director) has more than five decades of experience in textile industry and is handling dyeing and processing operations. Mr. Anish Maheshwari (son of Mr. Ashok Maheshwari) has more than a decade of experience in the textile industry and looks after marketing and commercial operations of the company. The company has established healthy relations with its customers and suppliers over the years which helped it to get repeated business. Acuité believes that the company will be benefitted by the established track record of over three decades in the textile industry.

- **Comfortable financial risk profile with comfortable debt protection metrics**

  The financial risk profile of KAPL is comfortable marked by moderate net worth and comfortable debt protection metrics. The tangible net worth stood at Rs.25.37 crore as on 31 March, 2018 as against Rs.20.82 crore as on 31 March, 2017 on account of healthy accretion to reserves. The leverage and coverage ratios continue to remain healthy. The gearing remained low at 0.17 times as on March 31, 2018 against 0.26 times as on March 31, 2017.

  The moderate profitability coupled with low gearing levels has resulted in healthy debt protection metrics, with interest coverage ratio of 17.24 times and NCA/TD of 1.80 times for FY2018. The TOL/TNW ratio remained moderate at around 0.65 times as on March 31, 2018 on account of high trade payables. In FY2018, Net cash accruals remained moderate at Rs.7.53 crore against debt repayment obligation of Rs.0.89 crore.

  KAPL has undertaken a capital expenditure plan with estimated project cost of Rs.7.40 crore funded through term loan of Rs.5.55 crore and remaining through promoters' contribution and internal accruals. The gearing is expected to remain comfortable and range between 0.33 to 0.20 times considering the additional term loan. Acuité believes that the financial risk profile of KAPL will remain comfortable over the medium term on account of healthy generation of net cash accruals.

Weaknesses

- **Moderate scale of operations**

KAPL has moderate scale of operations with operating income of Rs.47.64 crore in FY2018 as against Rs.36.60 crore in FY2017 and Rs.26.81 crore in FY2016. Further, the company has registered revenue of Rs.44.00 crore for the period April 2018 to January 2019. The operating profitability margins declined to 20.84 percent in FY2018 (PY: 23.16 percent). The reason for margins to decline was on account of increase in raw material cost in FY2018 over FY2017 and also due to intense competition. The net profitability margins have also decline to 9.61 percent in FY2018 as against 10.82 percent in FY2017 on account of increase in depreciation cost in FY2018 over FY2017. Acuité believes that the ability of the company to scale up its operations while maintaining the profitability in the highly competitive textile industry will be key rating sensitivity.

- **Working capital intensive operations**

The operations of KAPL have remained working capital intensive marked by high GCA of 246 days in FY2018 as against 192 days in FY2017. This is majorly on account of high inventory holding period and stretched receivables. The inventory holding period increased to 102 days in FY2018 on account of increase in finished goods inventory as compared to 73 days in FY2017. The receivables are also stretched at 145 days in FY2018 (PY: 112 days). Further, out of the total receivables amounting to Rs.18.66 crore as on 31 March, 2018, receivables beyond six months stood at Rs.1.77 crore; however, there are no significant write offs in the past. The company gets extended credit period from its suppliers of around 190 to 230 days which moderates the working capital requirements. The average bank limit utilisation stood at 25 percent for the last six months ended January, 2019.

- **Susceptible to volatility in raw material prices and foreign exchange fluctuation risk**

The main raw material purchased by the company is fabrics. Hence, the margins are susceptible to changes in cotton prices and global crude prices. Cotton being an agricultural commodity, the availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well.

Also, the global crude prices are highly volatile. Due to fluctuation in raw material prices, the operating margins have shown declining trend at 20.84 per cent for FY2018 as against 23.16 percent for FY2017. The exports of the company constituted around 10 to 12 percent of the total sales. As a result, the business is exposed to fluctuations in foreign exchange rate. Acuité believes that KAPL should be able to maintain its operating profitability around existing levels, notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic and overseas markets.

Liquidity Position

KAPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. KAPL generated cash accruals of Rs.7.53 crore to Rs.5.96 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.50 crore over the same period. The cash accruals of KAPL are estimated to remain around Rs.7.60 crore to Rs.9.78 crore during 2019- 21, while its repayment obligations are estimated to be around Rs.0.89 crore to Rs.1.59 crore. KAPL's operations are highly working capital intensive as marked by gross current asset (GCA) days of 246 in FY 2018. The company gets extended credit period from its supplier which moderates the working capital requirements. This has led to lower reliance on working capital borrowings, the cash credit limit in the company remains utilised at 25 percent during the last 12 months period ended December 2018.

KAPL is likely to incur capex of Rs.3.00 to Rs. 4.00 crore over the medium which is likely to be funded by equity. Acuité believes that the liquidity of KAPL is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that KAPL will maintain 'Stable' outlook over the medium term owing to established track record and extensive experience of the promoter in digital printing of fabrics. The outlook may be revised to 'Positive' in case of significant and sustained increase in revenues and profitability margins while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant decline in KAPL's revenues, profitability margins or elongation in its working capital cycle resulting in weakening of the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	47.64	36.60	26.81
EBITDA	Rs. Cr.	9.93	8.48	7.24
PAT	Rs. Cr.	4.58	3.96	3.60
EBITDA Margin	(%)	20.84	23.16	27.01
PAT Margin	(%)	9.61	10.82	13.43
ROCE	(%)	25.90	28.83	32.39
Total Debt/Tangible Net Worth	Times	0.17	0.26	0.19
PBDIT/Interest	Times	17.24	17.45	19.25
Total Debt/PBDIT	Times	0.42	0.64	0.43
Gross Current Assets (Days)	Days	246	192	231

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

None

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
Term loans	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.16	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.34	ACUITE BBB- / Stable

Cash credit includes sublimit as PC/PCFC to the extent of Rs. 0.75 crore and LC to the extent of Rs. 1.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Namita Palve Analyst - Rating Operations Tel: 02249294034 namita.palve@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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