

Press Release

Ken Enterprises Private Limited

July 18, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 59.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) and short term rating of 'ACUITE A3' (read as ACUITE A three) on the Rs. 59.00 crore bank facilities of KEN ENTERPRISES PRIVATE LIMITED (KEPL). The outlook is 'Stable'.

Maharashtra based, Ken Enterprises Private Limited (KEPL) was incorporated in 1998 and commenced its commercial operations in 2004. The company is engaged in manufacturing and exporting of grey fabrics. Export accounts for ~40% of total sales. The Company exports to countries like Kenya, South Korea, Bangladesh, Thailand, Vietnam and UAE among others. The directors of the company are Mr. Nikunj Hariprasad Bagdiya (Managing Director), Mrs. Bina Hariprasad Bagdiya and Mr. Krishna Hariprasad Bagdiya. The Company has 56 looms in house and outsources ~100 looms. The manufacturing unit is located in Ichalkaranji, Kolhapur. The installed capacity is 165.10 lakh mtrs per annum with ~85% utilization.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management

The company commenced with its commercial operations in 2004, thus has an operational track record of over a decade in textile industry. The company is promoted by Mr. Nikunj Hariprasad Bagdiya (Managing Director), Mrs. Bina Hariprasad Bagdiya and Mr. Krishna Hariprasad Bagdiya who possess an experience of over a decade in the same line of business. This has helped the company maintain long standing relations with customers and suppliers. Acuité believes that KEPL will sustain its existing business profile on the back of experienced management.

- Consistent growth in revenues

The operating income of KEPL has grown at a CAGR of 15 percent for the period FY2016-FY2019 (Provisional). The revenues increased to Rs. 221.91 crore in FY2019 (Provisional) as against Rs.194.90 crore in FY2018. This is mainly on account of increased orders from existing as well as new customers. Acuité believes that the scale of operations is expected to increase over the near to medium term on account of increasing export orders from existing as well as new customers.

- Average financial risk profile

The financial risk profile of the company stood average marked by average net worth, debt protection metrics and coverage indicators. The net worth of KEPL stood at Rs. 25.59 crore as on 31 March 2019 (Provisional) as against Rs. 21.74 crore as on 31 March 2018. The gearing (debt-equity) stood at 1.40 times as on 31 March 2019 (Provisional) as against 1.60 times as on 31 March 2018. The total debt of Rs. 35.81 crore as on 31 March 2019 (Provisional) mainly comprises Rs. 31.84 crore of working capital borrowings, Rs. 3.79 crore of long term debt and Rs. 0.18 crore of unsecured loans. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 1.95 times for FY2019 (Provisional) as against 1.85 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.16 times in FY2019 (Provisional) as against 0.14 times in FY2018. Debt to EBITDA stood at 2.38 times in FY2019 (Provisional) as against 2.48 times in FY2018. Acuité believes

that the financial risk profile of the company is expected to remain average backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- Moderate working capital operations

The company's working capital operations are moderate marked by Gross Current Assets (GCA) of 161 days for FY2019 (Provisional) as against 168 days in the previous year. Debtors stood at 80 days for FY2019 (Provisional) as against 81 days for FY2018. Inventory level stood at 74 days for FY2019 (Provisional) as against 81 days for FY2018. Further, the average bank limit utilization stood at ~96 percent for the past six months ending April 2019.

- Susceptibility of margins to fluctuation in raw material prices

The operating margins of the company depend on prices of raw material (i.e. raw yarn) which is highly volatile in nature. The operating margin stood at 6.79 percent in FY2019 (Provisional) as against 7.20 percent in FY2018. Further, the net margins stood thin at 1.73 percent in FY2019 (Provisional) as against 1.50 percent in FY2018. This is mainly due to high interest cost on loans from financial institutions.

Liquidity Position

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 5.76 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 3.38 crore for the same period. The cash accruals of the company are estimated to remain in the range of ~Rs. 7.50 crore to Rs. 11.00 crore against no debt obligation beyond FY2021. The company's working capital operations are average marked by gross current asset (GCA) days of 161 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 1.46 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.17 times as on 31 March 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against its maturing debt obligation over the medium term.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its experienced management and healthy scale of operations. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	221.91	194.90	170.08
EBITDA	Rs. Cr.	15.07	14.02	11.32
PAT	Rs. Cr.	3.84	2.92	2.46
EBITDA Margin	(%)	6.79	7.20	6.66
PAT Margin	(%)	1.73	1.50	1.45
ROCE	(%)	22.08	22.73	18.88
Total Debt/Tangible Net	Times	1.40	1.60	1.58

Worth				
PBDIT/Interest	Times	1.95	1.85	1.94
Total Debt/PBDIT	Times	2.38	2.48	2.63
Gross Current Assets (Days)	Days	161	168	164

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

India Ratings & Research, vide its press release dated April 30, 2019 had denoted the rating of Ken Enterprises Private Limited as 'IND BBB-/IND A3; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

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	29.00*	ACUITE BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00 #	ACUITE A3

*Cash Credit includes sublimit of PCFC/BRD to the extent of Rs. 20.00 crore.

#Letter of Credit (LC) includes sublimit of Bank Guarantee (BG) to the extent of Rs.

5.00 crore. Contacts

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About Acuité Ratings & Research:

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