

Press Release

Ken Enterprises Private Limited

D-U-N-S® Number: 65-082-0058

June 19, 2020



Rating Reaffirmed

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 reaffirmed 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 Cr bank facilities of KEN ENTERPRISES PRIVATE LIMITED. The outlook is '**Stable**'.

The rating reaffirmation considers the comfort drawn on long track record of operations, moderate scale of operations and average financial risk profile. Coupled to that, the company has also received export orders worth Rs.30 Cr (USD 4mn) during Q1FY2021. The rating however remains constrained on account of fluctuating margins, working capital intensive operations and stretched liquidity due to the continued high utilization of the working capital facilities. However, the company was abled with 10 to 20 percent additional limits on its existing working capital facilities, as per RBI norms due to outbreak of COVID – 19, which is expected to ease the liquidity position temporarily.

Acuité believes that any change in the scale of operations with subsequent effect in the profitability and stretch in the working capital operations leading to stretch in liquidity will remain key rating sensitivity factors.

About the Company

Maharashtra-based, KEPL was incorporated in June 1998. The company started its commercial operations in March, 2004 and is engaged in manufacturing and exporting of grey fabrics. The company is promoted by Mr. Nikunj Hariprasad Bagdiya, Mrs. Bina Hariprasad Bagdiya and Mr. Krishna Hariprasad Bagdiya who have over a decade of experience in the textile industry.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management with long track record of operations**

KEPL, promoted by Mr. Nikunj Hariprasad Bagdiya, Mrs. Bina Hariprasad Bagdiya and Mr. Krishna Hariprasad Bagdiya have over a decade of experience in the said line of business. The company is the second-generation textile manufacturing enterprise with 40 years of presence in Ichalkaranji, Maharashtra. It is the first weaving mill from Western Maharashtra. Export accounts for ~40 percent of total sales. The company has international presence in 15 countries for the export of grey fabric. The company exports to USA, Kenya, South Korea, Bangladesh, Thailand, Vietnam, Turkey, Mexico and UAE to name a few. Their manufacturing unit is located at Ichalkaranji with an installed capacity of 10,000 meters per month fully utilized. The extensive experience coupled with long track record of operations has enabled the company forge healthy relationships with customers and suppliers which in turn has helped in improved revenue growth, from Rs.195 Cr in FY2018 to Rs.222 Cr in FY2019; a compounded annual growth rate of about 14 percent. The company for FY2020 (Prov) has registered revenues of ~Rs.290 Cr. The Company during Q1FY2021 have bagged export orders worth Rs.30 Cr (USD 4mn) to be executed within August-2020. Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability to scale up the operations across various cycles however, operations are expected to remain impacted in Q1FY2021 and demand to remain subdued in the domestic market, due to the outbreak of COVID – 19.

- **Average financial risk profile**

Financial risk profile of the company is average marked by average gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protection metrics. The gearing has improved and stood average at 1.52 times as on 31 March, 2019 as against 1.72 times as on 31 March, 2018. TOL/TNW is at 3.81 times as on 31 March, 2019 as against 4.29 times as on 31 March, 2018. However, the net worth of the company stood modest at Rs.25.58 Cr as on 31 March, 2019 as against Rs.22.04 Cr as on 31 March, 2018. Of the total debt of Rs.38.82 Cr as on 31 March, 2019, long-term debt stood at Rs.6.80 Cr, unsecured loans from directors/promoters at Rs.0.19 Cr and short-term debt of Rs.31.84 Cr.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood at 1.86 times and 0.13 times respectively in FY2019. Net cash accruals stood at Rs.5.22 Cr in FY2019 and is expected to be in the range of Rs.2.00 Cr to Rs.3.50 Cr during the medium term against debt obligations of Rs.1.35 Cr.

Acuité believes that, the financial risk profile is expected to remain average in absence of any major debt funded capex for the medium term.

Weaknesses

- **Working capital intensive operations**

KEPL's operations are working capital-intensive as evident from gross current asset days of 175 days in FY2019 as against 183 days in FY2018. The debtor's days were recorded at 84 days for FY2019 as against 89 days in FY2018. The inventory days stood at 83 days in FY2019 as against 88 days in FY2018. The company normally maintains an inventory of 60 days to 70 days however an additional of 10 days to 20 days of inventory is maintained considering the company dealing in export orders majorly wherein the lead time is shorter and to facilitate immediate orders within time. The inventory is realizable stock and there are no dead stock/cancelled orders. The creditor days were recorded at 99 days for FY2019 as against 111 days in FY2018. Due to high customer realization cycle the working capital limits are utilized at ~95 percent through FY2020. Acuité believes that the working capital operations are expected to remain high with respect to the inventory cycle and which will remain a key rating sensitivity factor.

- **Susceptibility of margins to fluctuation in raw material prices**

The operating and profitability margins of the company depend on prices of raw material (i.e. yarn) which is highly volatile in nature. The operating margins stood at 6.36 percent in FY2019 as against 7.20 percent in FY2018. Further, the profitability margins stood thin at 1.47 percent in FY2019 as against 1.50 percent in FY2018. This is mainly due to foreign exchange fluctuation and fluctuation in the raw material prices.

Rating Sensitivities

- Ramping up scale of operations with sustainability of its profitability margins
- Any stretch in the working capital management leading to liquidity constraints

Material Covenants

None

Liquidity Position: Adequate

Liquidity of KEPL is adequate marked by moderate net cash accruals of Rs.5.22 Cr against debt obligations of Rs.1.55 Cr. Further, the cash accruals are expected to be at Rs.2.00 Cr to Rs.3.50 Cr, while its repayment obligations are estimated to be in the range of Rs.1.35 Cr to Rs.1.65 Cr for the medium term leaving aside moderate cushion for liquidity. Further, the operations of the company are working capital intensive as reflected by GCA days of 175 days in FY2019 driven majorly due to high inventory holding and receivable cycle which led to high bank limit utilization at ~95 percent through twelve months in FY2020. The company had unencumbered cash and bank balances of Rs.1.56 Cr as on March 31, 2019. The current ratio stood at 1.21 times as on 31st March, 2019. To support the liquidity in the current situation, keeping in light the outbreak of COVID -19, the company has been abled with 10% to 20% enhancement on its existing working capital facilities. This is expected to add further comfort to manage the working capital operations.

Acuité believes that the liquidity profile is expected to remain adequate on account of moderate cash accruals against debt obligations and lenders support in the form of enhancement to manage the working capital operations.

Outlook: Stable

Acuité believes that KEPL will maintain 'Stable' outlook in the medium term on account of long track record of operations, experienced management and healthy relationships with customers and suppliers. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenues and operations while sustaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	221.87	194.90
PAT	Rs. Cr.	3.27	2.92
PAT Margin	(%)	1.47	1.50
Total Debt/Tangible Net Worth	Times	1.52	1.72
PBDIT/Interest	Times	1.86	1.85

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

India Ratings & Research, vide its press release dated March 31, 2020 had denoted the rating of Ken Enterprises Private Limited as 'IND BBB-/ IND A3; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Jul-2019	Cash Credit	Long Term	29.00	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3 (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	31.50*	ACUITE BBB-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.50#	ACUITE A3 (Reaffirmed)

*Cash Credit includes sublimit of PCFC/BRD to the extent of Rs.18.00 crore.

#Letter of Credit (LC) includes sublimit of Bank Guarantee (BG) to the extent of Rs.5.00 crore.

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About Acuité Ratings & Research:

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