

Press Release

Ken Enterprises Private Limited

March 31, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	27.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	65.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of **ACUITE A3**(read as **ACUITE A three**) to the Rs 65.00 Cr bank facilities of Ken Enterprises Private Limited (KEPL). The outlook is '**Stable**'.

Rationale for rating

The rating assigned takes into account long track record and experience of the management in grey fabric manufacturing. Further, the rating factors in moderate financial risk profile along with its working capital mechanism. However, above mentioned strengths are partially offset by highly competitive nature of textile industry.

About the Company

Ken Enterprises Private Limited incorporated in 1998 is a Kolhapur, Maharashtra -based company, promoted by Mr. Nikunj Hariprasad Bagdiya, Mrs. Bina Hariprasad Bagdiya and Mr. Krishna Hariprasad Bagdiya. The company is engaged in manufacturing and export of grey fabrics. It is the second-generation textile manufacturing enterprise with 40 years of presence in Ichalkaranji. It is the first weaving mill from Western Maharashtra.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Ken Enterprises Private Ltd(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. The company has international presence in 15 countries for the export of grey fabric (export accounts for ~30 to 40 percent of total sales). The company exports to USA, Kenya, South

Korea, Bangladesh, Thailand, Vietnam, Turkey, Mexico and UAE to name a few. The extensive experience of promoters coupled with long track record of operations has enabled the company forge healthy relationships with customers and suppliers, which in turn has helped in growth of the business. The company's revenue has observed volatility for FY20-FY22 amidst high competitive intensity; and managed to scale up revenue for FY22 by 46% YoY to Rs.353.45 crore.

Average business risk profile albeit volatile nature of business

The operating revenue of the company improved to Rs 353.45 crore in FY 2022 as compared to Rs 240.7 crore in FY 2021 aided higher demand from the grey fabric segment. Company has reported provisional revenue as on 31 st January 2023 at Rs. 327.2 and projects Rs. 375 crores for FY23. The operating margin deteriorated to 3.64 per cent in FY2022 as compared to 4.69 per cent in the previous year. The PAT margins increased to 0.65 per cent as on FY2022 as against 0.37 per cent as on FY2021; though below its FY20 levels. The RoCE levels for the company improved to 16.37 per cent in 2022 as against 13.3 per cent in FY2021. The company's profitability is inherently exposed to the raw material prices of yarn (cotton) and the changes in price impact its overall margins. However, KEPL's business model reflects the change in cotton prices in its grey fabric revenue and is passed on to customers; so that major deviations can be avoided and profitability impact is kept on the lower side. KEPL does not fix prices for cotton/yarn for more than 3 months since the prices in the market are elastic and volatility is observed. Going forward, the improvement in profitability margins will remain a key rating sensitivity. Acuité believes that the company will continue to sustain its order book position and maintain its business risk profile over the medium term.

Moderate financial risk profile

KEPL has moderate financial risk profile marked by moderate net worth, gearing and debt protection metrics. KEPL's net worth stood at Rs.31.6 crore as on March 31, 2022 against Rs. 29.31 crore as on 31 st March 2021. The company's gearing position improved to 1.32 times as on March 31, 2022 from 1.49 times as on March 31, 2021. The company's total debt as on March 31, 2022 was at Rs. 41.76 crore compared to Rs.43.8 crore as on March 31, 2021; comprising of long-term debt of Rs.9.01 crore, short-term debt of Rs.30.11 crore and unsecured loans from directors and promoters of Rs.2.65 crore. TOL/TNW stood at 3.93 times as on March 31, 2022. Interest coverage ratio of the company stood at 1.43 times for FY21 and improved to 1.62 times for FY22. DSCR of the company, for FY21 stood at 1.13 times and is also improved in FY22 to 1.46 times. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive operations

KEPL has working capital intensive operations with average gross current asset (GCA) days standing over 150 days during FY20 to FY22. GCA days for FY22 improved to 148 from 193 for FY21 led by improved debtor days and inventory days. The company's debtor days and inventory days stood at 65 & 75 for FY22 compared to 79 & 107 for FY21 respectively. Acuité believes that the working capital operations of the group will remain at same level over the medium term given the nature of the industry.

Susceptibility of margins to fluctuation in raw material prices

KEPL's profitability depends on prices of key raw material, i.e. yarn (Cotton), which is highly volatile in nature. The company's operating margins further declined in FY22 at 3.64 per cent compared to 4.69 for FY21 primarily due to rise in cotton prices.

Rating Sensitivities

- Improving scale of operations post covid impact, albeit volatile raw material prices
- Asset light model approach enables the company to enhance its revenue without any capex or debt funded project
- Any deterioration in working capital management leading to deterioration in financials

Material covenants

None

Liquidity Position**Adequate**

Liquidity is adequately backed by KEPL's net cash accruals; which stood at Rs. 3.83 Cr as on March 31, 2022 against no debt repayment over the same period. The fund-based limit of Rs 35 Cr. was utilized above average at ~82 per cent over the twelve months ended February, 2023; and the non-fund based limit was utilized above average at ~87 per cent over the twelve months ended February 2023. The cash and bank balances of the firm stood at Rs. 3.72 Cr as on March 31, 2022. The current ratio stood comfortable at 1.31 times as on March 31, 2022. Moreover, the working capital intensive management of the company is improving albeit Gross Current Assets (GCA) of 148.23 days on 31st March 2022 as compared to 193.24 days in 31st March 2021. Acuité believes that going forward the company will accelerate to maintain adequate liquidity position due to increasing accruals.

Outlook: Stable

Acuité believes that Ken enterprises Pvt Ltd will continue to benefit over the medium term due to its "established market position and established relations with its customers. The outlook may be revised to "Positive", if the group demonstrates substantial and sustained growth in its operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if Group's generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	353.45	240.70
PAT	Rs. Cr.	2.30	0.89
PAT Margin	(%)	0.65	0.37
Total Debt/Tangible Net Worth	Times	1.32	1.49
PBDIT/Interest	Times	1.62	1.43

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

India Ratings vide its press release dated 28.07.2022, had rated the company to IND BB/ IND A4+; INC

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of

the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Jul 2021	Proposed Bank Facility	Short Term	2.50	ACUITE A3 (Withdrawn)
	Proposed Bank Facility	Long Term	2.50	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	31.50	ACUITE BBB- (Withdrawn)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Withdrawn)
19 Jun 2020	Cash Credit	Long Term	31.50	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	2.50	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	2.50	ACUITE A3 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	27.50	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Soham Vaidya Analyst-Rating Operations Tel: 022-49294065 soham.vaidya@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.