

## Press Release

### The Karnataka Handloom Development Corporation Limited

January 13, 2020



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs.27.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- (CE) / Outlook: Stable

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB- (CE)**' (**read as ACUITE triple B minus (Credit Enhancement)**) on the Rs.27.00 crore bank facilities of The Karnataka Handloom Development Corporation Limited (KHDC). The outlook is '**Stable**'.

The Karnataka Handloom Development Corporation Limited (KHDC) was incorporated in 1975 under the 20-Point Programme of the Government of India (GoI) and the Government of Karnataka to promote the handloom industry and to ensure the economic and social welfare of the weavers in Karnataka. The company has its registered office located at Hubballi, while its corporate office is in Bangalore. KHDC is involved mainly in production & procurement of handloom products from their registered members and marketing and retailing of the same through their 26 retail outlets as well as through wholesale sales made to Government / Public Sector Organizations.

#### Standalone (Unsupported) Rating

ACUITE B+/Stable

#### Analytical Approach

To arrive at rating, Acuité has considered the standalone business and financial risk profile of KHDC and notched up the standalone rating by factoring in the strong operational and financial support extended by Government of Karnataka (GoK).

#### Key Rating Drivers

##### Strengths

- **Strong operational and financial support from GoK and GoI**

KHDC's promoters are public sector entities - KHDC, a Government of Karnataka enterprise with 89.89 percent shareholding and Government of India with 10.02 percent shareholding. Both the parent entities provide support to KHDC in various financial and operational aspects. The company is also the nodal agency of the government of Karnataka undertaking with the objective of implementing several development and welfare schemes of the State & Central Governments for the benefit of weavers. Its operations are supervised by its Board of Directors appointed by the GoK. The corporation has strong financial linkages with the state government, with the GoK part funding by way of subsidies, grants. In addition, the GoK has extended guarantee to KHDC's working capital facility. The representatives of the related departments from the GoK are appointed as the Directors of KHDC's board to oversee the operations.

The KHDC is implementing schemes & Programmes includes – construction of Living-cum-work sheds and developed about ~40 weaver colonies across Karnataka with basic facilities such as water supply, road, street lights, etc in various parts of Karnataka. GoK's credit profile will also be supported by its access to funds at low cost and its ability to mobilise financial resources from several financial institutions. The rating also factors in the ongoing support extended by GoK to KHDC.

Acuité believes that KHDC shall continue to benefit from the financial, operational support from time to time GoK. Any changes in the ownership pattern of GoK or any event that impinges GoK's overall credit profile shall remain a key rating sensitivity.

## Weaknesses

### • Weak financial profile

KHDC's financial profile is weak characterised by consistent losses at the operating and net levels over the last five years, which has eroded the net worth completely. The company reported a net loss of Rs.23.41 crore in FY2019 on a total operating income of Rs.111.65 crores as against a net loss of Rs.2.93 crore in FY2018 on a total operating income of Rs.164.39 crore. The company has a negative net worth Rs.43.80 crore as on 31 March 2019. The solvency of KHDC is significantly dependent on the timely infusion of funds from the GoK to meet all its Operational and Financial Commitments.

Acuité believes that KHDC financial risk profile is expected to improve post the implementation of the Restructuring and Revival (R&R) scheme that includes conversion of outstanding loan and accrued interest into equity about Rs.27 crores by the GoK however it is pending at cabinet approval for conversion of loan into equity.

### • Working capital intensive nature of operations

KHDC's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days are high at 375 days in FY2019 and 336 days FY2018. GCA is owing to high inventory levels of 197 in FY2019 as against 145 days in FY2018. GCA days high primarily because of a significant portion of KHDC's inventory is accounted by finished goods ready for delivery to its own retail showrooms.

Acuité believes being into handloom industry the operations of the KHDC will remain working capital intensive as high inventory holding period is inherent in this industry.

## Liquidity Position: Adequate

KHDC's adequate liquidity position is enhanced by its association with GoK and GoI. On a standalone basis it has stretched liquidity position marked by Negative free cash flow from operations due to continued operating losses as well as high utilization levels of average of 86 % of the total sanctioned limits during the last 6 months through September 2019. Although stress in its liquidity position, but it has been timely supported by financial and operational support from GoK. Acuité believes liquidity position and the financial flexibility it enjoys as a state-owned entity and conversion of outstanding loans and accrued interest into equity after cabinet approval is a key sensitivity factor.

## Rating Sensitivities

- Improvement growth in revenue and profitability
- Financial and operational support from the GoK
- Successful implementation of the Restructuring and Revival (R&R) scheme

## Material Covenants

None

## Outlook: Stable

Acuité believes that the outlook on KHDC's rated facilities will remain 'Stable' over the medium term on account of its strategic importance to the government in promoting its handloom products under various Programmes and strong support from GoK. The outlook may be revised to 'Positive' in case the company registers a significant improvement in its revenues while improving its profitability levels. Conversely, the outlook may be revised to 'Negative' in case of any dilution of support from GoK or deterioration in the credit metrics of GoK or further deterioration in the capital structure and further stretch in the working capital, which weakens its liquidity.

## About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	111.65	164.39	134.19
PAT	Rs. Cr.	(23.41)	(2.93)	(13.24)
PAT Margin	(%)	(20.96)	(1.78)	(9.87)
Total Debt/Tangible Net Worth	Times	(3.23)	(6.06)	(5.23)
PBDIT/Interest	Times	(1.41)	0.78	(0.18)

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

Not Applicable

**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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Group And Parent Support- <https://www.acuite.in/view-rating-criteria-47.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	14.85	ACUITE BBB-(CE) / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.61	ACUITE BBB-(CE) / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.44	ACUITE BBB-(CE) / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.96	ACUITE BBB-(CE) / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.95	ACUITE BBB-(CE) / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.68	ACUITE BBB-(CE) / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-(CE) / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BBB-(CE) / Stable

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**About Acuité Ratings & Research:**

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