



SMERA RATINGS LIMITED

# Kenda Farben India Private Limited (KFIPL)

*Rating  
Rationale*

March 14, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	4.00	<b>SMERA BBB/Stable</b> (Upgraded from SMERA BBB-/Stable)
Letter of Credit	2.00 (reduced from Rs.3 crore)	<b>SMERA A3+</b> (Upgraded from SMERA A3)

SMERA has upgraded the abovementioned Rs.4.00 crore long term (fund based) facility to '**SMERA BBB' (read as SMERA triple B)** from 'SMERA BBB-' (read as SMERA triple B minus) and upgraded the rating of '**SMERA A3+ (read as SMERA A three plus)** from 'SMERA A3' (read as SMERA A three) on the Rs.2.00 crore short term (non-fund based) bank facility of Kenda Farben India Private Limited (KFIPL). The outlook is '**Stable**'.

The upgrade factors in the improvement in financial risk profile with easing of debt, healthy profitability margins and healthy liquidity profile. Further, the ratings continue to draw support from the company's experienced management. However, the ratings are constrained by the company's low-scale of operations amidst intense competition in the chemical (varnishes and adhesive) industry.

## Update

KFIPL's net sales have increased from Rs.31.64 crore in FY2013-14 (refers to financial year, April 01 to March 31) to Rs.37.40 crore in FY2014-15 on account of increase in repeat orders from customers and positive foreign exchange volatility. The company's debt-equity ratio fell from 0.95 times as on March 31, 2014 to 0.51 times as on March 31, 2015 mainly due to retention of profits in reserve and prepayment of debt. The operating profit margins improved from 13.94 per cent in FY2013-14 to 20.71 per cent in FY2014-15 on account of decrease in material cost in FY2014-15. The company's net profit margin improved from 6.86 per cent in FY2013-14 to 16.16 per cent in FY2014-15 mainly due to profits of Rs.2.89 crore from the sale of assets. The company has setup a new automated factory in Noida, U.P with enhanced manufacturing capacity of 1560 metric ton per annum.

KFIPL continues to benefit from its experienced management. Mr. Gaurav Malik, the Director, has around two decades of experience in the chemical industry.

The company's healthy debt protection metrics are reflected in the net cash accruals to total debt of 0.83 times as on March 31, 2015 and interest coverage ratio of 14.51 times in FY2014-15. Notwithstanding the strong revenue growth, the company has low-scale operations with revenue of Rs.37.40 crore in FY2014-15. The company operates in a highly competitive and fragmented segment of the chemical industry.

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### Outlook - Stable

SMERA believes KFIPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' if the company registers substantial growth in revenues and profitability while maintaining strong debt protection metrics. The outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or working capital management.

### About the Company

KFIPL is a Noida-based company engaged in the manufacture of chemical products used in footwear manufacture such as adhesives and varnishes. The company was promoted in 1997 by Mr. Gaurav Malik, Jaspal Singh Sawhney and Parmeet Singh Sawhney. KFIPL has one manufacturing units in Noida (UP) with total installed capacity of 3550 Metric Ton Per Annum.

For FY2014–15, KFIPL reported profit after tax (PAT) of Rs.6.05 crore on operating income of Rs.37.40 crore, as compared with PAT of Rs.2.17 crore on operating income of Rs.31.64 crore in FY2013–14. The company's net worth stood at Rs.17.41 crore as on March 31, 2015, as compared with Rs.11.43 crore a year earlier.

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