



SMERA RATINGS LIMITED

Kanchan International (KI)

*Rating
Rationale*

May 26, 2015

Facilities	Amount (Rs. Crore)	Rating
Packing Credit	5.00	SMERA A4 (Reaffirmed)
Packing Credit (proposed)	8.00	SMERA A4 (Reaffirmed)

SMERA has reaffirmed the rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.13.00 crore bank facilities (enhanced from Rs.5.00 crore) of Kanchan International (KI). For arriving at the rating, SMERA has consolidated the business and financial risk profiles of KI and Ramrati Jagdish Private Limited (RJPL), together referred to as the 'Kanchan Group'. The consolidation is in the view of strong operational linkages between the entities, which are under a common management. The rating is constrained by the group's weak financial risk profile and working capital-intensive operations. The rating notes that the group is exposed to geographical concentration risk. The rating is also constrained by the susceptibility of the group's profit margins to fluctuations in forex rates and intense competition in the textile industry. However, the rating draws comfort from the group's experienced management and healthy revenue growth.

Update

Kanchan Group reported profit after tax (PAT) of Rs.0.48 crore on operating income of Rs.67.98 crore in FY2013-14 (refers to financial year, April 01 to March 31), as compared with PAT of Rs.0.20 crore on operating income of Rs.21.61 crore in the previous year. The group's net worth stood at Rs.5.21 crore as on March 31, 2014, as compared with Rs.2.22 crore a year earlier.

Kanchan Group's weak financial risk profile is marked by high gearing of 3.45 times as on March 31, 2014 and moderate interest coverage ratio of 1.50 times in FY2013-14. The group's net profit margin is low at 0.71 per cent in FY2013-14. Kanchan Group's working capital cycle is stretched at 103 days in FY2013-14. The group faces intense competition from several players in the textile industry. Kanchan Group's profit margins are susceptible to fluctuations in forex rates. The group is exposed to geographical concentration risk as its entire revenue arises from exports to Dubai.

Kanchan Group benefits from its experienced management. Mr. K. L. Singhal, promoter of the Kanchan Group, has 34 years of experience in the textile industry.

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About the group

Kanchan Group comprises two entities (RJPL and KI) which are engaged in manufacturing and export of garments.

For FY2013-14, Kanchan Group reported net profit of Rs.0.48 crore on total income of Rs.67.98 crore, as compared with net profit of Rs.0.20 crore on total income of Rs.21.61 crore in FY2012-13. The group's net worth stood at Rs.5.21 crore as on March 31, 2014, as compared with Rs.2.22 crore a year earlier.

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