



SMERA RATINGS LIMITED

Kag Industries (KI)

*Rating
Rationale*

October 26, 2015

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	7.00	SMERA B/Stable (Upgraded from SMERA B-/Stable)
Cash Credit (Proposed)	8.00	SMERA B/Stable (Assigned)
Bank Guarantee (Proposed)	10.00	SMERA A4 (Assigned)

SMERA has upgraded the long term rating of the Rs.7.00 crore bank facility of Kag Industries (KI) to '**SMERA B' (read as SMERA B)** from 'SMERA B-' (read as SMERA B minus) and assigned ratings of '**SMERA B' (read as SMERA B)** and '**SMERA A4' (read as SMERA A four)** to the Rs.8.00 crore long term (fund based) and Rs.10.00 crore short term (non-fund based) bank facilities. The outlook is '**Stable**'.

The rating upgrade is in view of the commencement of operations in July 2015, healthy order book worth Rs.20 crore and tie-up with Patanjali for supply of malted food for the soon-to-be launched products. The rating upgrade also factors in continuous support from Continental Milkose (India) Limited (CML), KI's sister concern.

The rating is constrained by the small scale of operations of the firm, intense market competition and fragmented nature of the industry. However, the aforementioned weaknesses are partially offset by the experienced management.

Outlook: Stable

SMERA believes KI will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management and continuous support from CML. The outlook may be revised to 'Positive' in case the firm registers sustainable improvement in revenue, profitability and working capital management or customer diversification. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's capital structure or working capital management.

Rating sensitivity factor

- Scale of operations
- Customer diversification
- Profitability profile

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About the Firm

The Himachal Pradesh-based KI, incorporated in 2009 by Mr. Anuj Agarwal and Mrs. Prabha Agarwal undertakes contract manufacturing of malted milk powder, malt and chocolate based nutritional powder. The manufacturing unit, with production capacity of 20 tonnes per day is located at Sirmour district, Himachal Pradesh. KI enjoys excise duty exemption for 10 years from the date of commencement of commercial production.

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