Press Release

Kanodia Global Private Limited

March 06, 2023

Ratings

Instrument Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	40.48	IVR BBB with stable Outlook (IVR Triple B With Stable Outlook)	Assigned	Simple
Short Term bank Facilities	29.00	IVR A3 Plus (IVR A Three Plus)	Assigned	Simple
Total	**69.48 (Rupees Sixty Nine Crores and Forty Eight Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Kanodia Global Private Limited derives comfort from experienced promoters, diversified customer base, established client relationship and above average financial risk profile. However, these strengths are partially offset by susceptibility to volatility in raw material prices, foreign exchange fluctuation risks, intense competition in the operating segment and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with sustenance of profitability margins thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics

Downward Factors

- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or deterioration in the financial risk profile

- Any further significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Management and Established Track Record of Operations

Mr. Vinay Kanodia is the managing director of the company and has over 40 years of experience in the textile industry. The experience of the management has aided to scale up its operations over the years. Further, the company has operational track record of more than four decades and over the years the company has diversified into such as throws, cushion covers, baby blankets, pillows, and fashion and apparel accessories. The long operational track record and extensive experience of the management into the industry has helped the company into establishment of healthy relationships with reputed customers.

Improved Scale of Operations

Total operating income (TOI) of the company remained stable at Rs.184.67 crore in FY22 as against Rs.123.92 Crores in FY21. However, during FY22 TOI of the company has increased significantly reflecting ~48.11% of growth. This was driven by upliftment of restrictions and opening up of international market, upward price fluctuations in finished goods. Further, the company got manufactured finished goods on job work basis to meet the orders in hand.

Comfortable capital structure with improved debt protection metrics

The company has a comfortable capital structure on account of adjusted tangible net worth of Rs 61.55 crore as on March 31, 2022 (Rs 49.90 crore as on March 31, 2021). The overall gearing remains comfortable and stood at 1.26x in FY22 to 1.04x in FY22 this was on account of increase in long term debt. The debt protection metrics of the company remained comfortable marked by interest coverage at 3.53x as on March 31, 2022, as against 2.88x as on March 31, 2021. The debt service coverage ratio (DSCR) stood above unity in FY22. The debt protection metrics are likely to remain adequate over the medium term.

Healthy Operating Cycle

Operating Cycle has improved in FY22 and stood at 82 days (FY21: 101 days) with an inventory period of 83 days (FY21: 97 days), debtors collection period of 29 days (FY21: 31 days) and creditors period of 29 days (FY21: 26 days) in FY22.

Key Rating Weaknesses

Exposure to intense competition:

The home furnishings segment is highly unorganized and fragmented, due to low capital investment. Presence of a large number of exporters intensifies competition in the overseas market. Competition between organized players may also intensify, as given the focus on increasing brand penetration over the long term.

Susceptibility to volatility in raw material prices and forex rates:

The company's inability to pass on any increase in raw material (cotton and yarn) prices could constrain its operating margin. Even though more than 90% of revenue is denominated in US dollars, the company does not hedge its exposure. Profitability will, therefore, remain susceptible to fluctuations in cotton and yarn prices, and forex rates.

Analytical Approach: Standalone

Applicable Criteria :

Rating Methodologies for Manufacturing Sector Entities
Financial Ratios & Interpretation Non- Financial Sector
Criteria for assigning rating outlook

Liquidity – Adequate

The company has generated gross cash accrual of Rs.15.35 crore in FY22 as against the debt repayment obligations of Rs.8.55 crore. Further, KGPL liquidity position is adequate marked by sufficient cushion in expected GCA in the FY23-25 is in the range of ~Rs.16.60-21.43 crore as against repayment obligation in the range of ~Rs.11.54-10.60 crore during the same period. Although the average utilization of bank limits for last 12 months ended Jan 2023 stood at ~72.32% indicating limited buffer to meet incremental requirements. But the company has adequate gearing headroom to raise any additional debt. Further, company has reported adequate current ratio at 1.08x as on March 31, 2022 to meet its near-term cash requirements. The company had cash & bank balance of Rs.0.72 crore as on March 31, 2022. All these factors reflect adequate liquidity position of the company.

About the Company

Based in Delhi, KGPL was set up as Kanodia Hosiery Mills by Mr N L Kanodia in 1940 and was reconstituted as Kanodia Hosiery Mill Pvt Ltd. It got its present name in 2002. The company manufactures a wide range of knitted home textiles such as throws, cushion covers, baby blankets, pillows, and fashion and apparel accessories. Manufacturing is undertaken entirely in-house at facilities at Panipat, Kundli, and Rai in Haryana. KGPL has capacity to produce 2.25 lakh pieces per month.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	123.92	184.67
EBITDA	10.81	19.36
PAT	3.07	7.13
Total Debt	53.72	74.26
Tangible Net worth*	51.52	58.96
EBITDA Margin (%)	8.72%	10.48%
PAT Margin (%)	2.41%	3.78%
Overall Gearing Ratio (x)	1.04x	1.26x

**as per Infomerics standards*

Status of non-cooperation with previous CRA : Nil

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	32.98	IVR BBB with stable Outlook (IVR Triple B With Stable Outlook)	-	-	-
2.	Cash Credit	Long Term	7.50	IVR BBB with stable Outlook (IVR Triple B With Stable Outlook)			
3.	Packing Credit	Short Term	28.00	IVR A3 Plus (IVR A Three Plus)			
2	Letter of Credit	Short Term	1.00	IVR A3 Plus (IVR A Three Plus)	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Bank Facilities – Term Loan	-	-	-	32.98	IVR BBB with stable Outlook (IVR Triple B With Stable Outlook)
Long term Bank Facilities – Cash Credit				7.50	IVR BBB with stable Outlook (IVR Triple B With Stable Outlook)
Short Term bank Facilities – Packing Credit				28.00	IVR A3+ (IVR A Three Plus)
Short Term bank Facilities – Letter of Credit				1.00	IVR A3+ (IVR A Three Plus)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-KanodiaGlobal-mar23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com