

May 30, 2019

Karna International: Rating downgraded to [ICRA]D

Summary of Rated Instrument:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based	13.50	13.50	[ICRA]D; Downgraded from [ICRA]BB- (Stable)
Total	13.50	13.50	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade takes into account the instances of delays in debt servicing obligations by Karna International (KI) on the term loans, sanctioned from small industrial development bank of India (SIDBI), which have a clear mention of due date. There have been occasional delays of 5-9 days against the payments of monthly principle and interest dues, as confirmed by SIDBI to ICRA. The rating is also constrained by the firm's exposure to United Kingdom (UK) from where it generates 95-97% of its business and earns its revenues in pound sterling which makes its profitability vulnerable to foreign currency fluctuation risk. ICRA also notes the firm's modest scale of operations and, the highly competitive and fragmented nature of the industry it operates in, with the presence of numerous players in both the organized and the unorganized sectors. Moreover, the firm is also exposed to raw material price fluctuation risk in the absence of price variation clauses in the agreements with its customers. The rating also takes into consideration the high utilisation of working capital limits, as export payments from customers are prolonged, as against low payable days.

Nonetheless, the rating continues to derive comfort from KI's long track record of operations and the extensive industry experience of the partners, resulting in high value repeat orders from some of its customers for the past many years. ICRA, further, notes the strong growth in operating income of the firm in FY2018 chiefly supported by sterling appreciation during the year. The rating also takes into consideration the firm's comfortable capital structure with a gearing of 1.0 times as on March 31, 2018.

Key rating drivers

Credit strengths

Experienced management with long track record in the fasteners industry: The promoters have been manufacturing bolts, nuts, fasteners, washers and other related products for more than two decades. The firm's long presence in the industry has helped it to establish strong relationships with suppliers and customers.

Strong growth in OI in FY2018: KI's OI witnessed strong growth of ~19% in FY2018, increased to Rs. 51.74 crore from Rs. 43.53 crore in FY2017. The strong growth is primarily attributed to appreciation of British Pound (GBP) against the Indian Rupee (INR) during the year, as the firm is mainly an export-oriented unit with maximum sales made to UK, which in turn led to strong orders inflows from the existing clients as well as from new clients.

Modest credit profile: The firm's moderate profitability and debt levels have led to modest credit profile with comfortable capital structure with gearing of 1.0 times as on March 31, 2018 and moderate debt-coverage indicators with interest coverage of 2.1 times and NCA/TD of 7.8% in FY2018.

Credit challenges

Unsatisfactory debt servicing track record: While KI has been meeting its debt obligations on the rated instruments in a timely manner, there have been occasional delays of 5-9 days in the servicing of debt taken from the other lender.

Vulnerability to foreign-currency risk: As the firm is mainly an export-oriented unit, its sales are exposed to forex risk. Further, the firm does not hedge its foreign currency and hence its profitability remains exposed to foreign exchange rate-fluctuation risk in case of adverse movements in foreign currency rates. However, the firm has not recorded any forex losses in past five years on the foreign exchange front.

High working-capital intensity: The firm's working-capital cycle remains high as the receivable days are high due to elongated realisations from customers and prompt payments to suppliers. The firm offers high credit period to its existing clientele in order to retain them, which led the high working capital intensity position. The working capital intensity (NWC/OI) stood at 35% in FY2018 as against 36% in FY2017.

Profitability remains exposed to price-variation risk: KI manufactures a wide range of mild steel and iron-based products, making its profitability vulnerable to adverse fluctuations in the key raw material prices. In the absence of any price-variation clauses in its orders and low bargaining power of the firm, the profitability margins remain weak.

Stiff competition from other exporters and domestic players puts pressure on profitability: The companies in the UK and Europe are importing fasteners from various Asian countries. This has resulted in stiff competition among fasteners manufacturing companies in both indigenous and international markets. This, in turn, has led to increased usage of sales promotion activities, various cost-cutting measures, and offering attractive credit terms to attain competitive edge.

Liquidity Position:

With thin profitability and moderate scale of operations in FY2018, the liquidity position of the firm remains tight. The liquidity position is further constrained by prolonged export payments from the customers against prompt payments to suppliers, this is evident by high utilisation of working capital limits by the firm.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on default recognition
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company:

KI was established in 1992 as a partnership concern with Mr. Karnajit Lamba and Ms. Monica Lamba as partners. The firm is a Government of India-recognised export house and an ISO 9001:2008 certified unit. The firm manufactures cold and hot forged bolts, nuts, washers, fasteners, anchors, brackets and other equipment, which are used in hardware items manufacturing, architectural and construction activities. Its manufacturing facility is located in Ludhiana district of Punjab. The firm derives majority of its revenue from export sales primarily in the UK.

Key financial indicators:

	FY2017	FY2018
	Audited	Audited
Operating Income (Rs. crore)	43.53	51.74
PAT (Rs. crore)	0.97	1.06
OPBDITA/ OI (%)	6.61%	5.89%
RoCE (%)	8.44%	9.15%
Total Debt/ TNW (times)	0.95	1.05
Total Debt/ OPBDIT (times)	4.40	4.85
Interest Coverage (times)	2.36	2.13
NWC/ OI (%)	36%	35%

Source: KI, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE: Return on Capital Employed; OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016
						May 2019	February 2018	January 2018		
1	Packing Credit (PC)/Foreign Bills Discounting (FDB)/Foreign Bills of Exchange (FBE)	Long Term	13.50	13.22*	[ICRA]D	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable) ISSUER NOT COOPERATING	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)

* As on March 31, 2018

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Packing Credit (PC)/Foreign Bills Discounting (FDB)/Foreign Bills of Exchange (FBE)	NA	NA	NA	13.50	[ICRA]D

Source: KI

ANALYST CONTACTS

K Ravichandran

+91 44 45964301

ravichandran@icraindia.com

Manish Ballabh

+91 124 4545 812

manish.ballabh@icraindia.com

Vipin Jindal

+91 124 4545 355

vipin.jindal@icraindia.com

Hemant Dahiya

+91 124 4545 365

hemant.dahiya@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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