

## Konark Synthetic Limited

August 22, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	19.25	<b>CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
Short term Bank Facilities	9.70	<b>CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
<b>Total</b>	<b>28.95 (Rs. Twenty Eight Crore and Ninety Five Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Konark Synthetic Limited to monitor the rating(s) vide e-mail communications/letters dated June 28, 2019, June 18, 2019 and June 07, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Konark Synthetic Limited bank facilities will now be denoted as **CARE B-; Stable; ISSUER NOT COOPERATING\*** / **CARE A4; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.**

The ratings assigned to the bank facilities of Konark Synthetic Limited (KSL) continues to be constrained by moderate scale of operations, fluctuating operating margin and net losses, leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations with stretched liquidity position, presence in highly fragmented and competitive textile industry.

The ratings however, continue to derive strength from established track record and strong promoter experience in the fabric trading industry along with group support and location advantage.

Ability of the KSL to increase its scale of operations with improvement in profitability margins amidst fluctuation in raw material prices and efficient use of working capital requirement are the key rating sensitivities.

### Detailed description of the key rating drivers

At the time of last rating on December 27, 2018 the following were the rating strengths and weaknesses: *(updated for information received from BSE website).*

#### Key rating Weakness

**Moderate scale of operations:** The total operating income on has been declined by 19.42% from Rs.97.77 crore in FY18 to Rs.78.97 crore in FY19 owing to lower demand received from existing customers. Further during Q1FY20 KSL has achieved net sale of Rs.20.58 crore. However the same stood at modest level. Further KSL's net worth base stood relatively moderate at Rs.27.09 crore as on March 31, 2019. The modest scale coupled with moderate networth base limits the entity's financial flexibility in times of stress and deprives it from scale benefits.

**Fluctuating operating margin and net losses:** The operating margin of the company has reflected fluctuating trend in the range of 2.87-7.90% during the period FY15-19 primarily due to the volatility in raw material prices mainly petroleum products which are used in manufacturing of Polyester Texturized Yarn (PTY). The PAT margin also shown fluctuating trend during the period FY15-19 coupled with net losses; primarily on account of carried forward losses continued to subsequent years due to fire take place at manufacturing unit.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

**Leveraged capital structure and weak debt coverage indicators:** The capital structure remained leveraged owing to high dependence on external borrowings to support the operations. Further the debt coverage indicators remained weak owing to the same coupled with low profit margins. The capital structure of the company has marginally improved and stood leveraged marked by overall gearing of 1.89x as on March 31, 2019 (vis-à-vis 1.97x as on March 31, 2018) on account of reduction in debt level. Further the debt coverage indicators marked by total debt and interest coverage ratio have been deteriorated and stood at 38.45x times and 1.22x times respectively in FY19 (vis-à-vis 33.15x times and 1.80x times respectively in FY18) owing to lower sales realization resulted into generated cash accruals.

**Working capital intensive nature of operations:** The operations continue to remain working capital intensive in nature with funds blocked in receivables on account of high bargaining power of the existing customers and on the other hand the company receives low credit period from its suppliers. On account of this, the utilization of the working capital limit remained high.

**Stretched liquidity position:** The operations are moderately working capital intensive in nature and net working capital as a % of capital employed was 53 percent as on March 31, 2018. While cash flow from operating activities was remained negative, the unencumbered cash & bank balance was around Rs.0.89 crore as on March 31, 2018.

**Presence in highly fragmented and competitive textile industry:** KSL operates in highly fragmented, organized and unorganized market of textile industry marked by large number of small sized players. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and supplier. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.

#### Key rating Strengths

**Established track record and strong promoter experience in the fabric trading industry along with group support:** KSL was established in 1984 and has a track record of more than three decades in the manufacturing of specialty fancy yarns and Trading of fabric industry. Mr. Prakash Dalmia, the key promoter (Chairman & MD), has an extensive experience in this domain of more than three decade and looks after the overall management of the company. On account of long track record of operations and experience of the promoters, the company has established its own brand as konark specialty yarn.

**Location Advantage:** The manufacturing units of the company are strategically located at Silvassa, Sarigram and bangaluru, which is in the vicinity of the largest textile hub in India. The location of the plant provides competitive advantage in terms of raw material procurement, as it lowers the need for higher inventory holding of KSL.

**Analytical approach:** Standalone

#### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Short Term Instruments](#)

#### About the Company

Konark, incorporated in 1984, is primarily engaged in the manufacturing specialty yarn and fabric. Apart from the manufacturing activities the company is also involved in job work for ready-made garments and trading of processed fabrics. The company has three units namely Yarn unit in Silvaasa, Fabric unit in Sarigram (Gujarat) and the Garment manufacturing unit in Bangalore and has been certified as an ISO 9001:2000 company. The Company's product range includes yarn dyed and piece dyed polyester fabrics and its blends with cotton, linen, rayon and silk. It provides texturized and air-texturized yarn in India. Its apparel product range includes trousers, shirts and shorts.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	Q1FY20 (UA)
Total operating income	97.78	78.79	20.74
PBILDT	7.73	4.93	0.80
PAT	-0.64	-1.51	-0.98
Overall gearing (times)	1.97	1.89	-
Interest coverage (times)	1.80	1.22	0.73

A: Audited; UA: Un-audited;

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	19.25	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-BG/LC	-	-	-	9.25	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Forward Contract	-	-	-	0.45	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	19.25	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE B-; Stable (27-Dec-18)	-	-
2.	Non-fund-based - ST-BG/LC	ST	9.25	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (27-Dec-18)	-	-
3.	Non-fund-based - ST-Forward Contract	ST	0.45	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (27-Dec-18)	-	-

*\*Issuer did not cooperate; Based on best available information*

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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