Rating Rationale

4 Nov 2019

Kanva Fashions Ltd

Brickwork Ratings revises the rating for the Bank Loan Facilities of Rs 99.07 Crs of Kanva Fashions Ltd. ('KFL' or 'the Company').

Particulars:

Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2019)	Present
Fund based Cash Credit Term Loan	**74.00** **25.07**	**74.00** **25.07**	**Long Term**	**BWR BB-/Negative**	**BWR D Downgraded**
Total	**99.07**	**99.07**	**Rs Ninety Nine Crores and Seven Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank Loan facilities are provided in Annexure-I

Rating Action

The rating downgrade factors the delay by the company in servicing its debt obligations and the lender's confirmation that the account has been classified as a Non Performing Asset (NPA). The rating is further constrained by the heightened management and reputational risk in view of the media reports of the arrest of the Chairman and Managing Director of the Kanva Group of Companies, Mr N Nanjundaiah, in connection with alleged defaults by a Kanva group entity. Due to the prevailing uncertainty as a result of the recent developments in the Kanva Group and the serious corporate governance concerns, the management risk, business risk and credit risk profiles of the company are adversely impacted and there is a lack of clarity on the impact of these developments on the business.

Key Rating Drivers

Please refer to our detailed rationale **Rating Rationale 22 Mar 2019**

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The company's ability to meet its debt obligations in a timely manner is a key rating sensitivity. However, the developments in the ongoing investigations of the Kanva Group and its management are crucial and any adverse ruling would severely impact the business operations.

Liquidity: Poor

The liquidity of the company is poor as reflected by the delays in servicing of debt obligations leading to classification of the account as NPA.

Company's Profile

Kanva Fashions Limited is an integrated textile unit, which was established in June 2010 at Tumkur, Karnataka. KFL is engaged in the manufacturing of ready-made garments for men, women and children. Mr. N. Nanjundaiah is the Chairman cum Managing Director of the company and the Kanva Group.

Financial Performance

Key Financial Indicators	Units	FY17	FY18
Result Type		**Audited**	**Audited**
Net Revenue	Rs. Cr	168.44	152.17
EBITDA	Rs. Cr	31.09	26.62
Profit After Tax	Rs. Cr	3.77	(0.64)
Tangible Net Worth	Rs. Cr	82.77	82.14
Total Debt : Tangible Net Worth	Times	1.44	1.66
Current Ratio	Times	1.20	1.59

On a provisional basis, the company had achieved revenue of around Rs 68 Crs for 11MFY19.

Key covenants of the rated facilities: NA

Non Cooperation with previous Credit Rating Agency: NA

Rating History for the previous three years

Facilities	Current Rating (Nov 2019)			Rating History			
	Tenure	Amount (Rs Crs)	Rating	22Mar2019	2 Jan2019	6Aug2018	5May2017
Fund Based Cash Credit Term Loan	Long term	74.00 25.07	**BWR D Downgraded**	BWR BB-/ Negative	BWR BBB- Issuer Not Cooperating*	Rating Not Reviewed	BWR BBB/ Stable
Total		99.07	Rs Ninety Nine Crores and Seven Lakhs Only				

**Issuer did not cooperate: Based on best available information*

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Default Recognition and Post Default Curing Period**

Analytical Contacts	Investor and Media Relations
Anupama Muttur **Ratings Analyst** **B :+91 80 4040 9940 Ext :340** **anupama.m@brickworkratings.com** **Rajee R** **Senior Director – Ratings** **Board: +91 80 4040 9940** **rajee.r@brickworkraings.com**	**Liena Thakur** **Assistant Vice President - Corporate Communications** **+91 84339 94686** **liena.t@brickworkratings.com**

Kanva Fashions Ltd
Annexure I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Canara Bank	Cash Credit Term Loan	49.00 25.07	- -	74.07
2	Bank of Baroda	Cash Credit	25.00	-	25.00
Total: Rupees Ninety Nine Crores and Seven Lakhs Only					**99.07**

For print and digital media
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