

August 20, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	5.00	SMERA BBB+/Stable (Assigned)
Packing Credit	70.00	SMERA A2 (Assigned)

SMERA has assigned ratings of '**SMERA BBB+**' (**read as SMERA triple B plus**) and '**SMERA A2**' (**read as SMERA A two**) to the abovementioned bank facilities of K.S. Agro Exports (KSAE). The outlook is '**Stable**'. The ratings derive comfort from the firm's established track record of operations, experienced management, strong financial risk profile and efficient working capital management. The ratings are also supported by the location advantages derived by the firm from its proximity to major rice growing areas. However, the ratings are constrained by the firm's exposure to geographical concentration risk. The ratings are also constrained by the firm's low net profit margin and high level of client concentration in an intensely competitive segment of the agro-commodities industry.

KSAE, established in 2008, is an Amritsar-based partnership firm engaged in trading of rice and other agricultural commodities, including sugar, flour and soya beans. KSAE benefits from its experienced management. Mr. Kawaljit Singh and Mr. Ramneek Singh, partners of KSAE, have around three decades of experience in the agro-commodities industry. The firm's strong financial risk profile is marked by low gearing (debt-to-capital ratio) of 0.22 times as on March 31, 2014.

KSAE's efficient working capital management is reflected in working capital cycle of 14 days in FY2012-13 (refers to financial year, April 01 to March 31). The firm's net sales have increased at a strong compound annual growth rate (CAGR) of 84.14 per cent from Rs.197.37 crore in FY2009-10 to Rs.4,178.42 crore in FY2013-14 primarily on account of higher exports to Iran. KSAE benefits from its proximity to major rice growing areas in Punjab and Haryana, which are amongst the largest rice producing states in India.

KSAE is exposed to geographical concentration risk arising from high dependence on sales to Iran, which account for ~90 per cent of the firm's total revenues. KSAE's credit risk profile is highly susceptible to adverse changes in regulations governing trade with Iran. In an attempt to mitigate geographical concentration risk, the firm has recently started catering to customers in other Middle Eastern countries and Europe.

KSAE's net profit margin is low at 1.47 per cent in FY2013-14 on account of low value added nature of the trading business. The firm is exposed to client concentration risk arising from high dependence on orders received from five major customers. KSAE's revenue share from top five customers increased from 34 per cent in FY2012-13 to ~64 per cent in FY2013-14. The firm faces intense competition from various well-established players, such as KRBL, Kohinoor and LT Foods.

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Outlook: Stable

SMERA believes KSAE will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues and cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile and liquidity position on account of withdrawal of capital, decline in revenues or cash accruals and stretch in working capital cycle.

About the firm

KSAE, established in 2008, is an Amritsar-based partnership firm promoted by Mr. Kawaljit Singh Arora and Mr. Ramneek Singh. KSAE is engaged in trading of rice and other agricultural commodities, including sugar, flour and soya beans. The firm has branch offices in Delhi and Gandhidham (Gujarat).

For FY2013-14, KSAE reported profit after tax (PAT) of Rs.61.63 crore on net sales of Rs.4,178.42 crore, as compared with PAT of Rs.50.99 crore on net sales of Rs.1,954.93 crore in the previous financial year. The firm's net worth stood at Rs.116.91 crore as on March 31, 2014, as compared with Rs.82.65 crore a year earlier.

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