

Press Release

Komal Exotic Spices Private Limited

20 April, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.24.00 Crore
Long Term Rating	SMERA BB/Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.24.00 crore bank facilities of Komal Exotic Spices Private Limited (KESPL). The outlook is '**Stable**'.

The ratings continue to derive support from the company's experienced management and established relations with customers and suppliers. The ratings are further supported by comfortable financial risk profile and liquidity position. However, the ratings are constrained by decline in operating income, susceptibility of the profitability to volatility in commodity prices and foreign exchange fluctuation risk.

KESPL, incorporated in 2009, is a Mumbai-based company engaged in the import, processing and trading of spices such as cloves, black pepper, cumin seeds and cinnamon. The company is promoted by Mr. Gopaal Ahuja and family. The company's head office is located at The Mumbai Agricultural Produce Market (APMC) at Vashi - Asia's largest regulated market for agricultural produce. The company has two godown-cum-processing facilities located within the market wherein it carries out cleaning, sorting, grading and packing of spices. The company procures around 40 percent of its material from Sri Lanka, Indonesia, Africa among others.

Key Rating Drivers

Strengths

Experienced management

Mr. Gopaal Ahuja, the promoter has over 25 years of experience in the import and processing of exotic spices and dry fruits in India.

Established relations with reputed clientele

KESPL has been able to maintain long standing relations with reputed customers including Mahashian Di Hatti Private Limited (MDH), Shri Mahila Griha Udyog Lijjat Papad (Lijjat Papad), Everest Spices to name a few.

Comfortable financial risk and liquidity profile

KESPL's comfortable financial risk profile is marked by tangible networth of Rs.8.19 crore as on March 31, 2017 as against Rs.6.75 crore as on March 31, 2016. The debt to equity stood at 2.29 times as on March 31, 2017 as against 2.24 times in the previous year. The Interest Coverage ratio stood at 7.01 times for FY2016-17 as against 7.06 times in the previous year. The net cash accruals stood at Rs.1.57 crore for FY2017 as against Rs.1.09 crore in the previous year. The company has comfortable operating cycle with Gross Current Asset days (GCA) of 95 for FY2016-17 and 104 days in the previous year. The liquidity position is comfortable with average cash credit limit utilisation of around 9 percent for the last six months ended as on March 31, 2018. Going forward, SMERA expects the company to maintain its financial risk profile in the absence of major debt funded capex plan and moderate working capital requirement.

Weaknesses

Decline in operating income

KESPL has reported operating income of Rs.117.13 crore for FY2017 as against Rs.87.67 crore in the previous year, thereby registering a growth of around 33.60 percent. However, as informed by the management, the operating income stood at Rs.88.70 crore (Provisional) for FY2018. The decline in revenue during FY2017 was mainly on account of slowdown in orders from small unorganised customers emanating from GST related matters.

Going forward, SMERA believes that the company will post moderate growth in revenue as it plans to concentrate only on organised customers.

Susceptibility to volatility in commodity prices

The company is exposed to volatility in agro-commodity prices. This is on account of uncertain agro-climatic conditions such as inadequate rainfall or drought affecting the availability of agricultural commodities resulting in scarcity and increase in commodity prices. Further, changes in government policies, particularly those affecting import/export will have a huge impact on commodity prices.

Foreign exchange fluctuation risk

KESPL is exposed to forex fluctuation risk since it imports ~45 percent of its total purchases from Sri Lanka, Dubai, Indonesia among others. The risk is mitigated to an extent through natural hedging and use of forward contracts of Rs.17.00 crore. However, the company has incurred forex losses of Rs.0.23 crore for FY2016-17 as against Rs.0.79 crore for FY2015-16.

Analytical approach

SMERA has considered the standalone business and financial risk profile of Komal Exotic Spices Private Limited to arrive at this rating.

Outlook: Stable

SMERA believes that KESPL will maintain a 'Stable' outlook over the medium term on account of its experienced management and established relations with reputed clientele. The outlook may be revised to 'Positive' in case KESPL reports significant growth in revenue and profitability while effectively managing its operating cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in net cash accruals or higher than expected working capital borrowings resulting in deterioration of the financial risk profile.

About the Rated Entity -Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	117.13	87.67	77.40
EBITDA	Rs. Cr.	2.20	0.68	2.31
PAT	Rs. Cr.	1.44	0.75	1.30
EBITDA Margin	(%)	1.88	0.78	2.98
PAT Margin	(%)	1.23	0.85	1.68
ROCE	(%)	10.38	6.02	11.97
Total Debt/Tangible Net Worth	Times	2.29	2.24	2.78
PBDIT/Interest	Times	7.01	7.06	9.33
Total Debt/PBDIT	Times	7.06	8.99	6.39
Gross Current Assets (Days)	Days	95	104	143

Status of non-cooperation with previous CRA (if applicable): Not applicable

Any other information: Not Applicable

Applicable Criteria

- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Application Financial Ratios and Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Rating History (Upto last three years):

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
19 Oct 2015	Cash Credit	Long Term	2.00	SMERA BB/Stable (Assigned)
	Foreign Letter of Credit	Long Term	15.00	SMERA A4+ (Assigned)
	Proposed Foreign Letter of Credit	Short Term	7.00	SMERA A4+ (Assigned)
12 Jan 2017	Cash Credit	Long Term	2.00	SMERA BB/Stable (Reaffirmed)
	Foreign Letter of Credit	Long Term	17.00 (enhanced from Rs. 15.00 crore)	SMERA A4+ (Reaffirmed)
	Proposed Foreign Letter of Credit	Short Term	5.00 (revised from Rs. 7.00 crore)	SMERA A4+ (Reaffirmed)

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB/Stable (Reaffirmed)
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	SMERA A4+ (Reaffirmed)
Proposed Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+ (Reaffirmed)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>
Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 Email: suman.chowdhury@smera.in	Varsha Bist Manager- Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in
Shashikala Hegde, Senior Rating Analyst, Tel: 022-67141321 Email: shashikala.hegde@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smerra.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smerra.in) for the latest information on any instrument rated by SMERA.