

Press Release

RKBK Limited

08 July, 2017

Rating Reaffirmed



Total Instruments Rated*	Rs.13.00 Cr
Long Term Rating	SMERA BBB / Outlook: Stable
Short Term Rating	SMERA A3+

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB** (read as SMERA Triple B) and short term rating of '**SMERA A3+** (read as SMERA A Three plus) on the Rs. 13.00 crore bank facilities of RKBK Limited (RKBK). The outlook is 'Stable'.

SMERA has withdrawn the rating of '**SMERA BBB** (read as SMERA Triple B) on the Rs 0.89 crore term loan as the same has been repaid. SMERA has also withdrawn the rating of '**SMERA BBB** (read as SMERA Triple B) on the Rs 0.55 crore proposed cash credit facility as the company no longer requires it and rating of '**SMERA A3+** (read as SMERA A Three plus) on Rs 0.20 crore of forward contract as the company has discontinued the facility.

RKBK Limited, incorporated in 1976, is an authorised dealer of Indian Oil Corporation Limited (IOCL). The company, promoted by Mr. Neotia, Mr. Poddar and their respective families, deals in petroleum products through 80 depots and 16 petrol pumps in Uttar Pradesh, Bihar and Jharkhand. It is also engaged in the blending, packaging and selling of tea, tooth paste, detergent powder under the 'Dinkar' brand name.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations:**

The Directors, Mr. Krishna Neotia and Mr. Brijendra Kumar Poddar have more than four decades of experience in supplying diesel and petrol. The extensive experience has helped the company establish comfortable relations with both - IOCL and customers.

- Robust financial risk profile:**

The robust financial risk profile is marked by strong capital structure, debt protection metrics and moderate net worth. The gearing improved to 0.88 times in FY2016 from 1.24 times in FY2015. The total debt of Rs 22.41 crore in FY2016 consists of Rs 9.50 crore of unsecured loans, Rs 11.76 crore of cash credit facility and the balance Rs 1.15 crore constituting a term loan. The interest coverage stood at a high of 3.99 times while the Debt Service Coverage Ratio(DSCR) was at 2.90 times in FY2016. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.34 times in FY2016. The networth levels stood at around Rs 25.40 crore in FY2016 as compared to Rs 19.71 crore in FY2015 with retention of earnings. In FY2017 (Provisional), the gearing levels further improved to 0.47 times driven by repayment of the term loan and low utilisation of cash credit. The interest coverage stood at around 4.25 times and the networth at about Rs. 30.69 crore as on 31 March, 2017. SMERA expects the company to maintain a healthy financial risk profile over the medium term given the low need for outside borrowings.

- **Efficient working capital management:**

RKBK continues to have an efficient working capital management with low working capital cycle of five days in FY2016 and gross current asset days of 11 in FY2016. This was mainly on account of quick payments received from customers. Almost 90 per cent revenues are from sale of petrol, diesel and kerosene while the balance 10 per cent is generated from trading of tea, edible oil, tooth paste etc. The company collects payments on the spot for products sold through its dealership arrangement and allows a credit of around 10-15 days on an average for sale of products under the 'Dinkar' brand name.

Weaknesses

- **Geographical concentration:**

Since RKBK caters only to Uttar Pradesh, Haryana and Bihar, the company is exposed to geographic concentration risk.

- **High volume low margin:**

While RKBK has taken dealership of IOCL and also trades in select FMCG products (tea, salt, tooth paste and edible oil), the margins are thin (operating margin 1.15% in FY2016 and 1.02 per cent in FY2015) due to the trading nature of business.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that the outlook will remain 'Stable' on account of its experienced management and long standing relations with IOCL. The outlook maybe revised to 'Positive' if the company is able to widen its marketing network resulting in healthy revenue scalability and improvement in profitability. Conversely the outlook maybe revised to 'Negative' if the financial risk profile deteriorates on account of declining revenue and profitability or if the company undertakes any debt funded capital expenditure.

About the Rated Entity - Key Financials

For FY2015–16, RKBK reported (profit after tax) PAT of Rs.6.06 crore on operating income of Rs.569.38 crore compared to PAT of Rs.1.88 crore on operating income of Rs.573.17 crore in FY2014–15. For FY2017, the company earned revenue of Rs 498 crore (Provisional).

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Mar-2016	Term Loan^	Long Term	INR 0.89	SMERA BBB / Stable
	Cash Credit	Long Term	INR 15.00	SMERA BBB/ Stable
	Proposed Cash Credit	Long Term	INR 0.55	SMERA BBB/ Stable
	Bank Guarantee	Short Term	INR 0.50	SMERA A3+
	Forward contract#	Short Term	INR 0.20	SMERA A3+

[^]Term Loan has been fully paid off.

The company has discontinued the facility

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit**	Not Applicable	Not Applicable	Not Applicable	12.50	SMERA BBB / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A3+

** The Cash Credit facility has reduced to Rs 12.50 crore from Rs 15.00 crore.

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Shreya Vaidya Analyst - Rating Operations Tel: 033-66201217 Email: shreya.vaidya@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.smera.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.smera.in) for the latest information on any instrument rated by SMERA.