

Press Release

King Kaveri Trading Company



05 April, 2018

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 19.00 Cr.
Long Term Rating	SMERA BB- /Outlook: Stable

*Refer annexure for details

SMERA has reaffirmed the long term rating of '**SMERA BB-**' (read as SMERA double B minus) on the Rs. 19.00 crore bank facilities of King Kaveri Trading Co (KKTC). The outlook is '**Stable**'.

The Navi Mumbai-based KKTC was established as a partnership firm by Mr. Suresh Arora and Mr. Shashikant Kumbhar in 2005. The firm is an exclusive distributor of Fuwa axles and Sunrise wheel rims for Guangdong Fuwa Engineering Group Company Limited and Xiamen Sunrise Wheel Group Company Limited in India. The firm also specialises in trailer and semi-trailer parts.

Key rating drivers

Strengths

Experienced management

The partners, Mr. Suresh Arora and Mr. Shashikant Kumbhar have experience of more than three decades in the said line of business.

Improving profitability

The operating margins of the firm improved to 4.77 percent in FY2017 from 4.08 percent in FY2016 mainly on account of decrease in raw material cost. The PAT margins also improved to 0.46 percent in FY2017 from 0.34 percent in FY2016 on account of decrease in interest costs.

Weaknesses

Average financial risk profile

KKTC has average financial risk profile marked by tangible net worth of Rs. 10.58 crore as on 31 March, 2017 as against Rs. 12.48 crore as on 31 March, 2016. This includes unsecured loan of Rs. 3.30 crore as on 31st March, 2017 considered as quasi equity as the same is subordinated to bank debt. The adjusted gearing stood at 1.96 times as on 31 March, 2017 as against 1.56 times as on 31 March, 2016. The debt of Rs. 20.77 crore mainly consists of term loans of Rs. 1.24 crore and working capital borrowings of Rs. 19.53 crore as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 1.31 times for FY2017 as against 1.27 times in FY2016. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.01 times as on 31 March, 2017 as against

2.39 times as on 31 March, 2016. Going forward, SMERA expects the firm to maintain its financial risk profile in the absence of major debt funded capex plans.

Working capital intensive operations

KKTC's operations are working capital intensive marked by high Gross Current Asset (GCA) of 155 days in FY2017 compared to 131 days in FY2016. The GCA days are mainly dominated by high inventory of 93 days in FY2017 compared to 69 days in FY2016. The average cash credit utilisation for the past six months stood at ~95 percent. SMERA believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Competitive and fragmented industry

KKTC operates in a highly competitive and fragmented industry characterised by a large number of unorganised players affecting margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of KKTC to arrive at the rating.

Outlook – Stable

SMERA believes that KKTC will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	93.24	110.74	92.82
EBITDA	Rs. Cr.	4.45	4.52	2.49
PAT	Rs. Cr.	0.43	0.38	0.35
EBITDA Margin	(%)	4.77	4.08	2.68
PAT Margin	(%)	0.46	0.34	0.38
ROCE	(%)	12.93	15.65	12.55
Total Debt/Tangible Net Worth	Times	1.96	1.57	1.18
PBDIT/Interest	Times	1.31	1.27	1.60
Total Debt/PBDIT	Times	4.58	4.32	4.42
Gross Current Assets (Days)	Days	155	131	119

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

None

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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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. Crore)	Ratings/Outlook
20-Feb-2017	Cash Credit	Long Term	19.00	SMERA BB- / Stable (Assigned)

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	19.00	SMERA BB-/ Stable (Reaffirmed)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: +91-22-6714 1107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Avadhoot Mane, Analyst - Rating Operations Tel: +91-22-6714 1138 avadhoot.mane@smera.in	

ABOUT SMERA

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