

Press Release

King Kaveri Trading Company

June 28, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 22.00 Cr. (Enhanced from Rs. 19.00 Cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 22.00 crore bank facilities of **King Kaveri Trading Company (KKTC)**. The outlook is '**Stable**'.

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.

Analytical Approach

Acuite has considered standalone business and financial risk profile of KKTC to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

KKTC was established in 2005 by the partners, Mr. Suresh Arora and Mr. Shashikant Kumbhar. Both the partners have been actively involved in the business since inception and hold experience of more than three decades in the trading of automobile ancillaries. This has helped the firm to consistently grow, which is reflected in turnover of Rs. 105.04 crore in FY2019 (Provisional) as compared to Rs. 102.20 crore in FY2018 and Rs. 93.24 crore in FY2017 as well as maintain the profitability margins around ~5%.

• Average financial risk profile

The financial risk profile of KKTC is average marked by average net worth, debt protection measures and high gearing. The net worth stood at Rs.11.39 crore as on 31 March, 2019 (Provisional) as against Rs.12.68 crore as on 31 March, 2018. The net worth is inclusive of Rs.5.27 crore unsecured and subordinated loans by the promoters to support the incremental working capital requirements. The net worth has reduced on account of capital withdrawal by the partners for the purchase of land for future acquisition by KKTC. Total debt of Rs. 21.13 crore as on March 31, 2019 (Provisional) includes Rs. 1.54 crore term loans from bank and Rs.19.60 crore of working capital borrowing from the bank. The gearing of KKTC has stood stable at 1.86 times as on March 31, 2019 (Provisional) as compared to 1.74 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.88 times as on 31 March, 2019 (Provisional) as against 2.66 times as on 31 March, 2018.

Interest Coverage Ratio (ICR) stood moderate at 1.53 times in FY2019 (Provisional) as against 1.44 times in FY2018. Debt Service Coverage Ratio (DSCR) stood at 1.34 times for FY2019 (Provisional) as against 1.27 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.07 times as on 31 March, 2019 (Provisional) as against 0.05 times as on 31 March, 2018.

Weaknesses

• Stretched working capital management

The working capital of KKTC is stretched marked by GCA days of 142 in FY2019 (Provisional) as compared to 154 in FY2018. The inventory holding period of KKTC slightly improved to 78 days in FY2019 (Provisional) as compared to 83 days in FY2018. Inventory appears at higher levels as there are multiple branches where the inventory is needed to be kept handy. The receivables period has also improved to

47 days in FY2019 (Provisional) as compared to 62 days in FY2018. The payables period stood at 5 days in FY2019 (Provisional) as compared to 6 days in FY2018. However, average bank limit utilisation of KKTC stood comfortable at 80% for the last six months ended May 2019.

• **Competitive and fragmented industry**

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

Liquidity Position

KKTC has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. KKTC generated cash accruals of Rs. 0.86-1.47 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.20-0.23 crore over the same period. The cash accruals of KKTC are estimated to remain around Rs. 1.8-2.5 crore during 2019-21, while its repayment obligation is estimated to be around Rs. 0.30 to 0.40 crore. KKTC had moderate reliance on working capital borrowings, the cash credit limit remains utilised at ~80 percent during the last 6 months period ended May 2019. KKTC maintained unencumbered cash and bank balances of Rs. 0.18 crore as on March 31, 2019 (Prov.). The current ratio of KKTC stood moderate at 1.27 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of KKTC is likely to remain stretched over the medium term.

Outlook: Stable

Acuite 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	105.04	102.20	93.24
EBITDA	Rs. Cr.	5.41	4.65	4.45
PAT	Rs. Cr.	0.93	0.64	0.43
EBITDA Margin	(%)	5.15	4.55	4.77
PAT Margin	(%)	0.88	0.62	0.46
ROCE	(%)	14.62	12.80	12.93
Total Debt/Tangible Net Worth	Times	1.86	1.74	1.96
PBDIT/Interest	Times	1.53	1.44	1.31
Total Debt/PBDIT	Times	3.87	4.67	4.58
Gross Current Assets (Days)	Days	142	154	155

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

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Apr-2018	Cash Credit	Long Term	19.00*	ACUITE BB- / Stable (Reaffirmed)
20-Feb-2017	Cash Credit	Long Term	19.00*	ACUITE BB- / Stable (Assigned)

*Includes sublimit of Buyer's credit of Rs.8.00 crore

***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	22.00* (Enhanced from Rs.19.00 crore)	ACUITE BB- / Stable (Reaffirmed)

*Includes sublimit of Buyer's credit of Rs.8.00 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Sushmita Murai Analyst - Rating Operations Tel: 022-49294033 sushmita.murai@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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