

Press Release

10 April, 2017

Krishna Tunga Agro Industries

Rating Assigned

Total Bank Facilities Rated *	Rs.11.25 Cr
Long Term Rating	SMERA B+ / Outlook: Stable

Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 11.25 crore bank facilities of Krishna Tunga Agro Industries. The outlook is '**Stable**'.

Krishna Tunga Agro Industries (KTAI) based out of Raichur, Karnataka was established in 2013 as a partnership firm by Mr. B. Prasad, Mr. B. Venkateshwara Rao, Mr. B. Gopal Krishna among others. The firm is engaged in the manufacturing and processing of food grains and pulses. The installed capacity stands at 8 tonnes per hour. KTAI sells its products through traders in Karnataka, Tamil Nadu and Maharashtra.

Key Rating Drivers

Strengths

- **Moderate financial risk profile**

The financial risk profile is marked by moderate gearing and coverage indicators. The networth of the firm improved to Rs. 9.06 cr as on 31st March, 2016 as compared to Rs. 5.35 cr as on 31st March 2015. The total Networth of Rs.9.06 cr as on 31st March, 2016 includes quasi equity of Rs.2.13 cr. The moderate financial risk profile of KTAI is marked by gearing of 1.53 times as on March 31, 2016 against 2.29 percent in FY2014-15 on account of infusion of capital and retention of profit in business. Moreover, the interest coverage ratio stood moderate at 1.53 times in FY2015-16 against 1.88 times in FY2014-15.

- **Proximity to raw material**

The firm is strategically located at Raichur; Karnataka with proximity to paddy - the main raw material.

Weaknesses

- **Competitive and fragmented nature of industry**

The agro commodities industry is highly competitive with multiple players which results in intense competition from both the organised as well as unorganised players.

- **Agro climatic risks**

Paddy which is the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of paddy in

adverse weather conditions.

• Stretched working capital cycle

The firm has stretched working capital cycle marked by GCA days of 198 in FY2015-16 as compared to 117 days a year earlier. The GCA days are evident from increase in inventory days to 169 in FY2015-16 as against 77 days in FY2014-15. Further, the debtors stand moderate at 39 days in FY2015-16 as compared to 40 days in FY2014-15. SMERA also notes that the bank limit utilisation stood high at ~96 percent for the period August 2016 to February 2017.

Analytical Approach

SMERA has taken a standalone view of the financial and business risk profiles of KTAI.

Outlook: Stable

SMERA believes that the outlook for KTAI will remain 'Stable' over the medium term on account of moderate financial risk profile and firm's presence proximity to raw materials. The outlook may be revised to 'Positive' if the firm achieves more than expected revenue while improving its profit margins, capital structure and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and profitability or further elongation working capital cycle.

About the Rated Entity - Key Financials

For FY2015-16, KTAI reported net profit after tax of Rs.0.02 cr on total income of Rs.32.68 cr as against net profit after tax of Rs.0.24 cr on total income of Rs.38.23 cr a year earlier. The net worth stood at Rs.9.06 cr as on March 31, 2016, as compared with Rs.5.35 cr a year earlier. The total Networth of Rs.9.06 cr as on March 31, 2016 includes quasi equity of Rs.2.13 cr.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	9.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.25	SMERA B+ / Stable

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head -Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Shashank Shukla Rating Analyst Tel: 011-49731302 shashank.shukla@smera.in	Varsha Bist, Sr. Executive Tel: 022-67141160 Email: varsha.bist@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.