

Press Release
Krishna Tunga Agro Industries

July 25, 2018

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

Krishna Tunga Agro Industries (KTAI) is a Raichur (Karnataka) based partnership firm established in the year 2013 by Mr. Prasad and others. The firm is into paddy milling with an installed processing capacity of eight tonnes per hour.

Key Rating Drivers

Strengths

- **Experienced management in the agriculture sector and steady revenue growth and profitability margins**

KTAI was established in the year 2013, promoted by Mr. B. Prasad and other partners; the partners hailed from an agriculture background and possess more than two decades of experience in the agriculture sector. The partners are also engaged in trading in fertilizer business for more than two decades. The promoter's local presence and connect supported in improving the revenues of the firm; revenues have seen a moderate growth of about 12 per cent over three years ending March 31, 2018 at Rs.40.8 crores (Provisional) (FY2017 : Rs.37.5 crores). However, the revenues of FY2018 are in line with earlier estimates. Profitability margins though volatile, but comfortable at about 6.23 per cent in FY2018 against 6.46 per cent in FY2017 and 7.45 per cent in FY2016. Acuite believes that KTAI is expected to enjoy the benefit of proximity to the paddy growing area and rice mundis and the promoter's experience and local presence in improvement of its business risk profile over the medium term.

Weaknesses

- **Average financial risk profile**

Financial risk profile of the firm is marked by moderately high gearing (Debt to Equity ratio), average debt protection metrics and total outside liabilities to total net worth (TOLTNW). Gearing has deteriorated from 2.08 times in FY2017 to about 2.55 times in FY2018 to support the incremental working capital requirement and scale of operations. The firm is majorly into processing of BPT variety paddy (old rice) wherein it requires to hold the paddy for atleast 6-8 months to mature and to yield premium pricing. This requires the operations working capital intensive with gross current asset (GCA) days of about 200 leads to higher dependency on external borrowing. Its outstanding is about Rs.19.52 crores (Rs.14.57 crores of working capital borrowing, Rs.1.30 crore long term borrowing and unsecured loans promoters of about Rs.3.65 crores) against networth of Rs.7.64 crores (provisional) as of March 31, 2018. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt are average at 1.41 times and 0.04 times respectively for FY2018. TOLTNW has deteriorated from 2.25 times in FY2017 to about 2.65 times (provisional) in FY2018. Acuite believes that the financial risk profile is expected to be at similar levels considering the expected increase in business risk profile over the medium term and improvement in financial risk profile through equity infusion would be the key rating sensitivity in the medium term.

• Working capital intensive operations

Operations of the firm are working capital intensive marked by high Gross Current Assets (GCA) of 213 days in FY2018; it deteriorated from 185 and 198 days in FY2017 and FY2016 respectively. Firm maintains an inventory of around 155-185 due to seasonal availability of paddy and for ageing. However, debtor days are comfortable at around one month from the last three years through FY2018. The high GCA lead to high utilisation of its bank lines at over 90 per cent over the past six months through June 2018. Acuite believes that the working capital operations of the firm will remain intense as evident from high inventory levels in the business.

• Susceptibility of margins to volatility in raw material prices

The major raw material of the firm is paddy. The prices of the same are fluctuating in nature, therefore, the operating profit margins of the firm is susceptible to raw material price fluctuation. The same is evident from volatile margins in the range of 6-7 per cent over the past three years through FY2018. Further, any changes in the government policies like minimum support price as was done recently in June 2018 will have a bearing on the commodity prices and realisations.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the KTAI to arrive at this rating.

Outlook: Stable

Acuite believes that the outlook of KTAI will remain 'Stable' over the medium term on account of the experience of the partners in the agriculture sector. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenues while maintaining its profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further deterioration in its working capital cycle due to higher than expected inventory levels or sharp decline in prices exerting pressure on the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	40.82	37.55	32.68
EBITDA	Rs. Cr.	2.54	2.42	2.44
PAT	Rs. Cr.	0.08	0.06	0.02
EBITDA Margin	(%)	6.23	6.46	7.45
PAT Margin	(%)	0.21	0.16	0.05
ROCE	(%)	7.78	7.67	14.16
Total Debt/Tangible Net Worth	Times	2.55	2.08	2.31
PBDIT/Interest	Times	1.41	1.48	1.53
Total Debt/PBDIT	Times	7.68	6.18	6.54
Gross Current Assets (Days)	Days	213	185	198

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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
11 July, 2018	Cash Credit	Long Term	9.00	ACUITE B+ (Issuer non Co-operative)
	Term Loan	Long Term	2.25	ACUITE B+ (Issuer non Co-operative)
10 April, 2017	Cash Credit	Long Term	9.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	2.25	ACUITE B+/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	10.10	ACUITE B+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.15	ACUITE B+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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