

Press Release

Krishna Tunga Agro Industries

October 16, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 16.65 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+ / Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 16.65 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 engaged in paddy milling with an installed processing capacity of eight tonnes per hour.

The rating revision reflects improvement in operating performance, which is expected to be sustained over the near to medium term. The EBITDA have improved to 7.33 per cent in FY2019 against 6.30 per cent in FY2018. PAT margins improved significantly to 1.34 per cent in FY2019 against 0.17 per cent in FY2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the KTAI for arriving at the rating.

Key Rating Drivers

Strengths

- Experienced management and steady revenue growth and profitability margins**

KTAI was established in the year 2013 by Mr. B. Prasad and other partners. The partners hails from an agriculture background and possess more than two decades of experience in the agriculture sector. The promoters' local presence and connections have supported in improving the revenues of the firm; revenues have grown to Rs. 42.02 crore in FY2019 as against Rs. 39.84 crore in FY2018 and Rs.37.55 crore in FY2017. EBITDA margins stood at 7.33 per cent in FY2019 as against 6.30 per cent in FY2018 and 6.46 per cent in FY2017.

Acuite believes that KTAI is expected to enjoy the benefit of proximity to the paddy growing area and rice mundis along with the promoter's experience and local presence in improvement of its business risk profile over the medium term.

Weaknesses

- Moderate financial risk profile**

The firm has moderate financial risk profile, which is marked by low networth, high gearing and moderate debt protection metrics. Networth stood at Rs. 7.92 crore against total debt of Rs. 18.46 crore as on 31 March, 2019. Gearing stood at 2.33 times as on 31 March, 2019 as against 2.65 times as on 31 March, 2018. TOL/TNW is high at 2.88 times as on 31 March, 2019 as against 2.65 times as on 31 March, 2018. Debt protection metrics of interest coverage ratio (ICR) and debt service coverage ratio (DSCR) are moderate at 1.78 times and 1.62 times, respectively, in FY2019.

Acuité believes that the financial risk profile of the firm will continue to remain moderate in the absence of major debt funded capital expenditure.

- Working capital intensive nature of operations**

The working capital operations of the firm are intensive in nature marked by Gross Current Assets

(GCA) of 235 days in FY2019 as compared to 211 days in FY2018 and 185 days in FY2017. The rise in GCA days is mainly on account of increase in the inventory levels during the peak season. The working capital facilities remain fully utilized during the peak season.

• Profitability susceptible to highly competitive and fragmented nature of rice milling industry and agro-climatic risks

KTAI operates in the rice processing industry, which has low entry barriers leading to intense competition from both the organised as well as unorganised players. This limits the bargaining power of players in the industry, thereby affecting profitability.

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

Rating Sensitivities

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.
- Improvement in the scale of operations and profitability margins over the near to medium term.

Material Covenants

None

Liquidity Position: Adequate

The liquidity of KTAI is adequate marked by net cash accruals in the range of Rs. 0.70 crore to Rs. 1.10 crore over the past three years against minimal repayment obligations. Liquidity is enhanced due to unsecured loans received from the partner and their relatives. The working capital operations of the firm are intensive as evident by GCA days of 235 in FY2019. The working capital limits in the firm remained fully utilised during the peak season. The firm maintains unencumbered cash and bank balances of Rs. 0.06 crore as on March 31, 2019. The current ratio stood at 1.36 times as on March 31, 2019.

Outlook: Stable

Acuité believes the outlook on the firm will remain 'Stable' over the medium term on account of the promoters' extensive experience and established presence in the industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability, while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or further elongation of the working capital cycle; thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	42.02	39.84	37.55
EBITDA	Rs. Cr.	3.08	2.51	2.42
PAT	Rs. Cr.	0.56	0.07	0.06
EBITDA Margin	(%)	7.33	6.30	6.46
PAT Margin	(%)	1.34	0.17	0.16
ROCE	(%)	9.71	7.76	7.67
Total Debt/Tangible Net Worth	Times	2.33	2.65	2.08
PBDIT/Interest	Times	1.78	1.39	1.48
Total Debt/PBDIT	Times	5.92	7.73	6.18
Gross Current Assets (Days)	Days	235	211	185

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
14-Aug-2018	Cash Credit	Long Term	10.10	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	1.15	ACUITE B+ / Stable (Reaffirmed)
	Cash Credit	Long Term	5.40	ACUITE B+ / Stable (Assigned)
25-Jul-2018	Cash Credit	Long Term	10.10	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	1.15	ACUITE B+ / Stable (Reaffirmed)
11-Jul-2018	Cash Credit	Long Term	9.00	ACUITE B+ (Indicative)
	Term Loan	Long Term	2.25	ACUITE B+ (Indicative)

*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	10.10	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.15	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.40	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)

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About Acuite Ratings & Research:

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