



Press Release

Kanak Agro Infrastructure

July 31, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 5.00 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**) on the Rs. 5.00 crore bank facilities of Kanak Agro Infrastructure. The outlook is '**Stable**'.

Kanak Agro Infrastructure (KAI) established in 2014 is a Madhya Pradesh-based partnership firm promoted by Ms. Kavita Rathore and Ms. Ranjana Rathore. The operations are led by Mr. Vinod Rathore. KAI is engaged in the processing and marketing of certified seeds (mainly soyabean and wheat). The firm has set up a unit for grading and processing at Madhya Pradesh with an installed capacity of 150 quintals per hour.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters, Ms. Kavita Rathore, Ms Ranjana Rathore and Mr. Vinod Rathore possess over a decade of experience in the agricultural sector.

- **Proximity to soya seeds**

The manufacturing facilities are located at Khandwa (MP) in close proximity to raw material source.

Weaknesses

- **Limited operational track record with small scale of operations**

Since operations commenced in 2014, the scale is small with operating income of Rs.5.10 crore for FY2017 (Provisional) as against Rs.3.01 crore for FY2016 and Rs.11.32 crore for FY2015.

- **Vulnerability of margins to fluctuations in the prices of agricultural commodities**

KAI has low profitability marked by operating margin of 6.95 percent and net loss of Rs.0.28 crore for FY2017 (Provisional) as against operating loss of Rs.0.02 crore and PAT of Rs.0.08 crore for FY2016. However, profitability remains susceptible to volatility in the prices of agricultural commodities, changes in government regulations and agro climatic risks.

- **Average financial risk profile**

The gearing (debt-to equity ratio) stood high at 4.32 times as on 31 March, 2017 (Provisional) as against 3.21 times in the previous year. The Interest coverage ratio (ICR) stood at 1.25 times as on FY2017 (Provisional) as against 2.52 times for FY2016. Further, the tangible net worth stood low at Rs.1.81 crore as on 31 March, 2017 (Provisional).

- **Working capital intensive operations**

The firm has working capital operations marked by GCA (gross current assets) of 581 days for FY2017 (Provisional) as against 402 days for FY2016. This is on account of inventory of 517 days and debtors of 64 days for FY2017 (Provisional). The inventory days are high mainly on account of

seasonality of production. The WCC (Working capital cycle) days stood at 433 for FY2017 (Provisional) and 372 days for FY2016. Further, the average utilisation of working capital borrowing stood at ~100.00 percent for the last six months from January 2017 to June 2017.

• Intense competition

The firm is exposed to intense competition in the agricultural industry.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of KAI

Outlook: Stable

SMERA believes that KAI will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' if KAI achieves sustained growth in revenues and profitability while improving its financial risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or deterioration in the financial risk profile or working capital cycle.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the firm reported net loss of Rs.0.28 crore on operating income of Rs.5.30 crore, compared with net profit of Rs.0.08 crore on operating income of Rs.3.01 crore in FY2015-16. The net worth stood at Rs.1.81 crore as on 31 March, 2017 as against Rs.1.46 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.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)

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	5.00	SMERA B / Stable

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