

Press Release

Kisankraft Limited

September 28, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 43.27 Cr.
Long Term Rating	ACUITE BBB/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to Rs.43.27 crore bank facilities of Kisankraft Limited (KKL). The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates backed by diversified product profile and geographical reach. KKL reported a revenue of Rs.118.7 crore for FY2018; a growth of about 17 percent over FY2017. Operating profitability has improved significantly backed by healthy product mix with high margin yielding products sold; it improved to 16.2 percent in FY2018 (10.69 percent in FY2017). Capital structure is healthy at a debt-to-equity of 0.63 times as on March 31, 2018.

However, the rating is constrained by moderate Gross Current Assets (GCA) of about 160 days (over the past three years), and high capex proposed by the management for construction and shifting of the manufacturing facility over the medium term. Further, the rating also factors in cyclical in Agri-machinery equipment industry and highly competitive industry, with large number of unorganised players.

Kisankraft Limited (KKL), a Bangalore-based company was incorporated in 2005 by Mr. Ravindra K Agrawal (Managing Director), Mrs. Sarika Agrawal, Mr. Charles G. Moore and Mr. Kishore S. Chitalia. The company manufactures assembles imported parts and components. The company also distributes farm equipments of mechanical, petrol, diesel and kerosene driven or operated. It caters to small and marginal farmers through its pan-India network of more than 3000 dealers and 16 regional offices. The head office and warehouse are located at Bangalore (Karnataka).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KKL's to arrive at this rating.

Key Rating Drivers:

Strengths:

Established track record and Experienced management in farm equipment sector

KKL was incorporated in 2005 by Mr. Ravindra Kumar Agrawal and Mrs. Sarika Agrawal who have more than a decade of experience in the said line of business. The team's longstanding presence, diversified product profile and deep penetration into the markets across the geography has supported in healthy off-take and revenue growth at a compound annual growth rate (CAGR) of about 20 percent over last three years through FY2018. The company has a wide product portfolio of 30-40 products with strong distribution network encompassing almost 3,000 dealers and 16 regional offices across the country. This aids the company in providing multiple delivery options to its customers across all geographies in India. Further, the company is expected to further expand its footprint to international markets thus providing it a cost competitive advantage as compared to other players in the domestic market.

KKL to strengthen its business further entered into a Memorandum of Understanding (MoU) with Government of Andhra Pradesh for proposed to setting up of a manufacturing unit in Andhra Pradesh. The investment outlay is in the range of Rs.50.0 –75.0 crore over a period of 3-5 years with a debt proposition of about Rs.30.0 crore. The investment is to setup a manufacturing facility in an area of

about 60-70 acre of land to take care of long-term needs and vision of the management. Acuité believes that KKL's business risk profile is expected to improve further over the medium term supported by healthy band of products, geographical reach and long operational track record of operations.

Steady growth in revenue and profitability margins

KKL's revenues have grown steadily at a CAGR of about 20 percent over past three years through FY2018. The growth is aided by improving mechanisation across the regions and product profile across the segments of: soil preparation, plantation, crop management, irrigation and harvesting. The current states of mechanisation across the categories are below 50 percent except at harvesting level; this leaves a potential for growth over the longer horizon.

At KKL, the growth is supported by dealer network of about 3000 spread across 16 regional offices across India. The improving revenue supported by healthy mix of products along with support of increasing scale and efficiencies have aided in improvement of the operating profitability to 16.2 percent in FY2018 against 10.6 percent in FY2016. Acuité believes that the margins are expected to be at similar levels over the medium term with a revenue growth of about 10-15 percent over the medium term.

Healthy financial risk profile

KKL has healthy financial risk profile characterised by healthy gearing (debt-to-equity), healthy total outside liabilities to total net worth (TOL/TNW) and healthy coverage indicators. The capital structure, as reflected by gearing, stood at 0.63 times as on March 31, 2018 an improved from 1.12 times in FY2017, due to healthy cash accruals and marginal debt levels. TOL/TNW is healthy at around 1.00 times in FY2018 owing to less reliance on external debt and moderate net worth of Rs.30.75 crore as on March 31, 2018. The debt coverage indicators also remain robust as reflected by interest coverage ratio of 7.15 times and net cash accrual to total debt of 0.60 times for FY2018. With the proposed setup of manufacturing facilities over the medium term, Acuité believes that the financial risk profile is expected to be at similar levels partly supported by longer-time horizon of capex and healthy accruals vis-à-vis no repayment obligations.

Weaknesses:

Working capital operations

KKL has intense working capital operations as evident from Gross Current Assets (GCA) of 163 days as on March 31, 2018 as against 153 days as on March 31, 2017 and it has a long working capital cycle of 151 days in FY18 against 129 days in FY17. This is primarily due to high inventory days of 181 in FY18 against 157 in FY17 because of the nature of equipment's being sold by the company. The receivable days are less than five days for the past three years as the sales are against payment or with marginal credit period. Its creditor days are around a month for past three years. KKL's working capital limits are managed well due to financial flexibility and healthy accruals resulted in moderate utilisation of its bank lines at about 50 percent over past six months through July 2018. Acuité believes that the working capital operations of the company will remain intense as evident from high inventory levels.

Agri-machinery business remains exposed to cyclicity

The company's agri-machinery business is inherently cyclical in nature and dependent on farm production, monsoon, and crop realisations among others. The Government of India (GoI), however, remains committed towards rural development and agri-mechanisation in the country with enhanced budgetary allocations. Continued Government focus is likely to aid growth in industry volumes across sector over the medium to long term. The industry is fragmented, regulated and competitive with large number of unorganised players. Any adverse effect on equipment prices can directly impact the profitability of the company.

Outlook: Stable

Acuité believes that KKL will maintain a 'Stable' outlook in the medium term on account of the experienced promoter and the financial flexibility it enjoys. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while sustaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any larger-than-expected debt-funded capex or any stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	118.74	101.20	83.13
EBITDA	Rs. Cr.	19.29	10.82	8.85
PAT	Rs. Cr.	9.78	3.64	1.78
EBITDA Margin (%)	(%)	16.24	10.69	10.65
PAT Margin (%)	(%)	8.24	3.60	2.14
ROCE (%)	(%)	37.66	21.55	33.83
Total Debt/Tangible Net Worth	Times	0.63	1.12	1.33
PBDIT/Interest	Times	7.05	2.88	2.10
Total Debt/PBDIT	Times	1.00	2.17	2.66
Gross Current Assets (Days)	Days	163	153	169

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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 the Facilities	Term	Size of the Issue (Rs. Crore)	Ratings/Outlook
06-Dec-2017	Overdraft	Long Term	10.00	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	32.00*	ACUITE BBB / Stable (Assigned)
	Term loans	Long Term	1.27	ACUITE BBB / Stable (Assigned)

*Includes sublimit of Rs. 31.10 crore as letter of credit/buyer's credit, Includes sublimit of Rs. 2.00 crore as Bank guarantee

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.50*	ACUITE BBB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.56	ACUITE BBB / Stable (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.71	ACUITE BBB / Stable (Assigned)

*Includes sublimit of Rs. 31.10 crore as letter of credit/buyer's credit, Includes sublimit of Rs. 2.00 crore as Bank guarantee

Contacts

Analytical	Rating Desk
Sri Hari Adari Head - Rating Operations Tel: +91 40-4027 4590 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Bhavani Sankar Oruganti Sr. Rating Analyst - Rating Operations Tel: +91 40-4005 5452 bhavanisankar.orunganti@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.