Press Release

Kisankraft Limited

September 27, 2019

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

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

The rating reaffirmation reflects sustenance of the revenue growth backed by diversified product profile and experience of the promoters. KKL reported a revenue of Rs.144.12 crore for FY2019; a growth of about 21 per cent over FY2018. Further, the ratings continue to reflect the experienced management and established track record of operations and healthy financial risk profile. However, it is constrained by moderate working capital intensive operations and proposed large debt-funded capital expenditure (capex).

Kisankraft Limited (KKL), a Bangalore-based company was incorporated in 2005. KKL is promoted by Mr. Ravindra K Agrawal (Managing Director) And Mrs. Sarika Agrawal. Mr. Ramkumar Krishnamachari, Mr. Ankit Prakash Chitalia Mr. Sunil Prasad, Ms. Neha Agrawal, Mr. Vilakkudi Ranganthan Srinivasan are the other directors the company.

KKL is a manufacturer, importer and distributor of farm equipments. It caters to small and marginal farmers through its all -India network of 2440 dealers and 15 regional offices.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of KKL to arrive at the 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 long-standing 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 per cent over last three years through FY2019. The growth is aided by deeper penetration across the regions and product profile across the segments of soil preparation, plantation, crop management, irrigation and harvesting. The company has a wide product portfolio of 30-40 products with strong distribution network encompassing almost 2440 dealers and 15 regional offices across the country. 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.

  In order to strengthen its business, KKL further entered into a Memorandum of Understanding (MoU) with Government of Andhra Pradesh for setting up of a manufacturing unit in Andhra Pradesh. The investment outlay is in the range of Rs.70-75 crore over a period of 3-5 years with a debt proposition of about Rs.40.0 crore. The investment is to setup a manufacturing facility testing, demonstration, warehousing, R&D on (Petrol, Kerosene, Diesel, Water-pumps, Inter-cultivators along with seed development primarily on 'Aerobic Rice' technology in an area of about 46 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 industry experience and domain knowledge of the management and long standing relationship with its clientele, healthy band of products, geographical reach and long operational track record of operations.

- **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 strong coverage indicators. Gearing and TOL/TNW have improved to 0.29 times and 0.78 times as of March 31, 2019 against 0.63 times and 1.1 times in FY2018, respectively; owing to less reliance on external debt and moderate net worth of Rs.41.70 crore as on March 31, 2019. The debt-coverage indicators also remain robust, as reflected by interest coverage ratio of 8.68 times and net cash accrual to total debt of 1.06 times for FY2019 Vis-à-vis 7.15 times and 0.60 times for FY2018. KKL generated cash accruals of Rs.5.46 crore to Rs. 12.63 crore during the last three years through 2018-19, while it's maturing debt obligations were below 0.50 crore over the same period. The cash accruals are estimated to remain around Rs.13-15 crore during 2020-22, while its repayment obligations are estimated to be around Rs.5.00 crore over the same period. The company is planning to do capex of about Rs.57.50 Cr in next three years with a term loan of Rs.40.00 crore and Rs. 17.50 crore of internal accruals. Despite the company's plans to incur capex going forward, an expectation of improved cash accruals is expected to help the company in maintaining a healthy financial risk profile over the medium term.

Weaknesses

- **Moderate working capital operations**
  The company's operations are moderately working capital intensive in nature as reflected by its gross current asset (GCA) days of around 146 days as on March 31, 2019 as against 163 days in FY2018. KKL maintains an average inventory of around 4-5 months of various varieties and grades for smooth running of operations and no stock out position and nature of equipment's being sold by the company. The inventory risk is moderate as KKL is aware of the fast and slow moving products and orders accordingly. 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 30-45 days for past three years. KKL's working capital limits are managed well due to healthy accruals resulted in moderate utilisation of its bank lines at about 60 percent over past six months through July 2019. Acuité believes that the working capital operations of the company will remain intense as evident from high inventory levels, large product offering and widely spread operations.

- **Agri-machinery business remains exposed to cyclicality**
  The company's agro-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 agro-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.

Rating sensitivity

- Scaling up of operations, while improving profitability margins while maintains its current financial risk profile would be a positive factor.
- Any Cost or time overrun in its proposed capex would remain a negative factor.

Material Covenants

None

Liquidity position

KKL's liquidity is adequate marked by comfortable cash accruals, moderate bank line utilisation. It has generated cash accruals of Rs.5.46 crore to Rs. 12.63 crore during the last three years through 2018-19, while it's maturing debt obligations were below Rs. 0.50 crore over the same period. The cash accruals are estimated to remain around Rs.13-16 crore during 2019-21, while its repayment obligation are estimated to be around Rs. 5.00 crore over the same period. Its operations are moderately working capital intensive with GCA of about 146 days in FY2019; comfortable cash accruals led to lower reliance on working capital borrowings at 60 per cent during the last 6 months period ended July 2019. The KKL maintains unencumbered cash and bank balances of Rs.0.45 crore as on March 31, 2019. The current ratio stood healthy at 1.76 times as on March 31, 2019. The KKL is likely to incur capex of Rs.57.50 crore over the medium term. Acuite believes that the liquidity of the KKL is likely to remain adequate over the medium term on account of comfortable cash accruals.

Outlook: Stable
Acuité believes that the outlook on KKL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while diversifying the geographies and sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant cost or time overrun in its proposed capex leading to deterioration of its capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	144.12	118.74	101.20
EBITDA	Rs. Cr.	18.91	19.29	10.82
PAT	Rs. Cr.	10.75	9.78	3.64
EBITDA Margin	(%)	13.12	16.24	10.69
PAT Margin	(%)	7.46	8.24	3.60
ROCE	(%)	33.97	37.66	21.55
Total Debt/Tangible Net Worth	Times	0.29	0.63	1.12
PBDIT/Interest	Times	8.68	7.15	2.95
Total Debt/PBDIT	Times	0.62	1.00	2.17
Gross Current Assets (Days)	Days	146	163	153

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 Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
28-Sep-2018	Over Draft	Long Term	3.50	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	38.50	ACUITE BBB/Stable (Reaffirmed)
	Term loans	Long Term	0.56	ACUITE BBB/Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.71	ACUITE BBB/Stable (Assigned)
06-Sep-2017	Over Draft	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)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Over Draft	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 (Withdrawn)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.27	ACUITE BBB/Stable (Reaffirmed)

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About Acuité Ratings & Research:
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