Press Release

Kisankraft Limited

October 05, 2021

Rating Reaffirmed

Total Instruments Rated*	Rs. 87.27 Cr.
Long Term Rating	ACUITE BBB+/ Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB+' (read as ACUITE Triple B Plus)** on Rs. 87.27 Cr bank facilities of Kisankraft Limited (KKL). The outlook is **'Stable'**.

The reaffirmation of the ratings continues to factor the established track record, extensive experience of promoters in farm equipment sector, continued improvement in scale of operations and its healthy financial risk profile. The aforementioned rating strengths were tempered by working capital intensive nature of operations, cyclicality in Agri-machinery segment, forex risk related to imports and project risk related to ongoing projects.

About the company

KKL, a Bangalore based company engaged in assembling and trading of agricultural machinery. The company was incorporated as a private limited company in the year 2005 and later converted into public limited company in October 2017. The Company is promoted by Mr. Ravindra K Agrawal (Managing director) and Mrs. Sarika Agrawal. The company imports raw materials and finished goods from China and then assembles its products in-house. The company sells agricultural equipment under the brand name of 'KisanKraft' and 'Farmboy' equipment for Land Preparation, Plantation, Crop Management, Harvesting and Post Harvesting activities and their product portfolio includes more than 300 different models to serve the farmers' needs in 14+ Product Segments. The company has further diversified its product portfolio into power tools under the brand name of 'Aryantra' to cater to the markets of construction and industrial equipment.

The company has an all -India network of around 5,600 dealers (as on 17 Sep 2021 of which 3,000 permanent dealers and 1,600 seasonal dealers), 15 regional offices across India. The company also has 85 exclusive showrooms and 15 standardized Showroom & Service Centers across India. The company also owns patents for improvements in gearbox for brush-cutter and design of gearbox for oil-palm harvester. KKL products have been tested and approved by FMTTI (Government of India's Farm Machinery Testing & Training Institute) and empaneled in various subsidy programs to encourage farm mechanization by most states in India.

Analytical Approach

Acuite has considered the standalone financial and business 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 management team's long-standing presence, diversified product profile and deep penetration into the markets across the geography has supported in healthy offtake and revenue growth at a compounded annual growth rate (CAGR) of about 22 per cent over last five years through FY21. 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 aided by a well-entrenched dealer network, encompassing 5500+ dealers and 15 regional offices across the country are likely to support volume growth in the regions over the medium term. 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.

- **Improving scale of operations**

Revenue of the company improved from Rs 144.12 Cr in FY19 to Rs 215.38 Cr in FY21 (CAGR of 22 per cent). This was primarily on account of improved demand due to lower competition from players in unorganized sector. Further to this, the operating margins improved from 13.98 per cent in FY20 to 18.72 per cent in FY21. This improvement in operating profitability was as a result of favorable pricing as the industry faced shortages especially in unorganized sector. Acite believe, the company will be able to maintain the growth in revenue while maintaining the profitability primarily on account of the wide product portfolio, strong dealership network and pricing advantages as compared to competitors.

- **Healthy Financial Risk Profile**

The financial risk profile of the company was observed from strong net worth and capital structure and adequate coverage indicators. The net worth of the company improved from Rs 56.06 Cr in FY20 to Rs 84.64 Cr in FY21 primarily due to accretion of profits to net worth. The capital structure was strong with gearing at 0.35 times and total outside liabilities to net worth at 0.69 times. The debt position increased as a part of the planned capex the company was undertaking. The debt is expected to go up as the company draws on the full limits for completion of the project. Acuite expects the gearing levels to remain in the range of 0.16-0.34 times over the medium term. Further the coverage indicators were adequate with interest coverage improving from 8.88 times in FY20 to 53.02 times in FY21 and DSCR improving from 6.88 times to 20.00 times over the same period.

Acuite believes, Kisankraft will be able to maintain its financial risk profile over medium term considering the strong cash generation from operations and no expenses beyond the planned capex.

Weaknesses

- **Working capital intensive nature of operations**

The company's operations are moderately working capital intensive in nature as reflected by its gross current asset days in the range of 115 to 148 days over past 3 years ended FY21. KKL maintains an average inventory of around 93-156 days over the same period owing to the vast product portfolio it caters to. Acuite believes, the working capital requirement for the company to stay intensive considering the lead times and the inventory the company has to maintain for running the business.

- **Agricultural-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 realizations among others. The Government of India, however, remains committed towards rural development and agro-mechanization 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 unorganized players. Any adverse effect on equipment prices can directly impact the profitability of the company.

- **Forex exposure risk**

The company imports almost all of its raw materials and finished goods, and has no hedging policy in place. Any unforeseen fluctuations in forex can impact the profitability of the company. The company passes on the fluctuation in input prices with multiple price hikes over the year to its customers. To mitigate this risk, the company has shifted its focus to in-house manufacturing. The company, over the next 3-4 years plans to shift up-to 60 per cent of its procurement from local sources. The company has set up the new manufacturing plant in

Nellore, Andhra Pradesh and is also is in the process of putting up another plant in the same property. Acuite believes, the company will be able to reduce its reliance on imports once the production starts from its own plants.

Liquidity Position: Adequate

The liquidity position of the company was adequate with average of peak utilization of the working capital facilities at 83 per cent for past 6 months ended August 2021. Primary reason for higher utilization of fund based facilities can be attributed to the inherent cyclicality in agri-machinery industry is September to November and inventory peaks in the months just before the preseason. The net cash accruals generated by the company were in the range of Rs 12.63 Cr to Rs 30.52 Cr as against scheduled debt repayment of Rs 0.07 Cr to Rs 5.26 Cr over past 3 years ended FY21. The debt repayment is expected around Rs 7-9 Cr while the net cash accruals are expected in the range of Rs 21-26 Cr over FY22-24. Further, the gross current days are in the range of 115 to 148 days over past 3 years ended FY21. Acuite believes, Kisankraft will be able to maintain its liquidity profile over medium term considering the strong revenue generation from operations despite the planned capex.

Rating Sensitivities

- Increase in revenues while improvement in profitability
- Elongation in the working capital cycle

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 scale of operations while maintaining 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	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	215.38	165.23
PAT	Rs. Cr.	28.65	14.26
PAT Margin	(percent)	13.30	8.63
Total Debt/Tangible Net Worth	Times	0.35	0.01
PBDIT/Interest	Times	53.02	8.88

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22 Sep 2020	Overdraft	Long Term	3.50	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)

	Cash Credit	Long Term	28.50	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Proposed working capital facility	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Proposed Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.27	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
27 Sep 2019	Overdraft	Long Term	3.50	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	38.50	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	0.56	ACUITE BBB/Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.27	ACUITE BBB/Stable (Reaffirmed)
28 Sep 2018	Overdraft	Long Term	3.50	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	38.50	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	0.56	ACUITE BBB/Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.71	ACUITE BBB/Stable (Reaffirmed)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Axis Bank	Cash Credit	Not Applicable	7.60%	Not Applicable	18.50	ACUITE BBB+/Stable (Reaffirmed)
Axis Bank	Over Draft	Not Applicable	7.60%	Not Applicable	3.50	ACUITE BBB+/Stable (Reaffirmed)
Axis Bank	Term Loan	01-03-2020	8.20%	28-02-2025	19.03	ACUITE BBB+/Stable (Reaffirmed)
Citibank	Cash Credit/WCDL	Not Available	6.50%	Not Applicable	31.00	ACUITE BBB+/Stable (Reaffirmed)
Citibank	Term Loan	01-10-2021	6.50%	30-09-2026	15.00	ACUITE BBB+/Stable (Reaffirmed)
Not Applicable	Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.24	ACUITE BBB+/Stable (Reaffirmed)

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