

Press Release
Kisankraft Limited

December 28, 2022

Rating Downgraded



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|----------------------------------|-------------------|
| Bank Loan Ratings | 87.27 | ACUITE BBB Stable Downgraded | - |
| Total Outstanding Quantum (Rs. Cr) | 87.27 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB+**' (read as **ACUITE Triple B Plus**) on Rs.87.27 Crore bank facilities of Kisankraft Limited (KKL). The outlook is '**Stable**'.

Rationale for Rating Downgrade

The downgrade in the rating takes into account deterioration in the operating performance of the company marked by moderation in operating income, operating margins and elongated working capital cycle. The operating income of the Company ranged between Rs.200-215 Cr for last two years ended FY2022, while its margins deteriorated to 11.59 percent from 18.72 percent during the same period. The decline in margins is primarily on account of increase in raw material prices which mainly constitutes plastic components & increase in prices of overseas freight. The working capital cycle of the company continued to be stretched marked by elongated inventory holding period. The rating draws comfort from the experienced management, established track record of operations and moderate financial risk profile. Going forward, KKL's ability to improve its scale of operations while maintaining its profitability margins and restricting the elongation in its working capital cycle will remain a key rating monitorable.

About the Company

Kisankraft Limited, a Public Limited Company having its registered Office at Bangalore, is engaged in manufacturing and trading of agricultural machinery and trading of power tools. 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 and managed by Mr. Ravindra K Agrawal, Mrs. Sarika Agrawal and Mrs. Krishna Kishore Chitalia. For the products manufactured in India, the company sources their raw materials and parts locally in India and from China. The company sells 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 all -India network of around ~3000 dealers (as of November 2022 of which ~2300 are permanent dealers and 700 are seasonal dealers) and 15 regional offices 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 FMTI (Government of India's Farm Machinery Testing & Training Institute) and empanelled

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 in the segments of soil preparation, plantation, crop management, irrigation and harvesting strengthen business profile of the Company. KKL has a wide product portfolio of 30-40 products aided by a well entrenched dealer network, encompassing around ~3000 dealers (as of November 2022 of which ~2300 are permanent dealers and 700 are seasonal dealers) and 15 regional offices across the country are likely to support volume growth in the regions over the medium term.

KKL recorded an operating income of Rs.199.61 crore in FY2022 as against Rs.215.38 crore in FY2021 and Rs.165.23 crore in FY2020. Till November 2022, the company had recorded revenue of Rs.143.28 crore. The operating margin of the company stood at 11.59 percent in FY2022 as against 18.72 percent in FY2021 and 13.98 percent in FY2020. The decline in margins is primarily on account of increase in raw material prices which mainly constitutes plastic components & increase in prices of overseas freight.

Acuite believes that KKL's business risk profile is expected to remain stable 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.

>Moderate Financial Risk Profile

The financial risk profile of the company stood moderate, marked by healthy net worth, moderate gearing and average debt protection metrics. The tangible net worth of the Company stood at Rs.95.71 crore as on 31 March 2022 as against Rs.84.64 crore as on 31 March, 2021. The total debt of the company stood at Rs.41.26 crore which includes short-term debt of Rs.14.05 crore, long-term debt of Rs.21.72 crore and CPLTD of Rs.5.50 crore as on 31 March, 2022. The overall gearing (debt to equity) stood at 0.43 times as on 31 March 2022 as compared to 0.35 times as on 31 March, 2021. Driven by increasing debt and deterioration in operating performance, the debt protection metrics of KKL moderated in FY2022. The Interest Coverage Ratio stood at 8.52 times for FY2022 as against 53.02 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 2.46 times in FY2022 as against 20.00 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.76 times as on 31 March, 2022 as against 0.69 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.41 times for FY2022 as against 1.03 times for FY2021.

The company plans to enhance its production capacity at its factory unit at Nellore, Andhra Pradesh at the total cost of Rs.20.00 Cr, which was funded by debt of Rs. 15.00 Cr and balance by internal accruals. The project is expected to be completed by end of FY23.

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

Weaknesses

>Working capital intensive nature of operations

The working capital management of the company is intensive marked by GCA days of 169 days in FY2022 as against 148 days in FY2021. The debtor days stood at 15 days in FY2022 as against 12 days in FY2021. Majority of the sales are made on cash and carry basis. The creditor days stood at 24 days in FY2022 as well as in FY2021. Majority of the procurement is made on part advance payment basis and balance on documents at site incase of imports and in case of local purchases it is paid through bank and the general payment terms for

that is 'within 07 days on supply of material on site'. The inventory holding period of the company stood at 131 days in FY2022 as against 143 days in FY2021. The company has to maintain high inventory on account of seasonal nature of agricultural equipment industry. The dealers mainly stock the material from the month of May-Nov and the season of sale starts from June till December. Thus, the inventory levels tend to remain high on year ends with the Company but tapers down in non-season period. KKL maintains an average inventory of around 100-150 days during the season. As on November, 2022, on an annualised basis, the inventory held with KKL stood at 145 days.

Acuite believes, the ability of the Company to restrict the elongation in its working capital will remain a key rating monitorable.

>Agricultural-machinery business remains exposed to cyclical

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 from China in the past two years 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 has set up another manufacturing plant in Nellore, Andhra Pradesh.

Acuite believes, the company will be able to reduce its reliance on imports once the production starts from its own plants.

Rating Sensitivities

- Ability to improve its scale of operations and profitability margins.
- Elongation in the working capital cycle

Material covenants

None.

Liquidity Position: Stretched

The company's liquidity position is stretched, marked by modest net cash accruals against its maturity debt obligations. The company generated net cash accruals in the range of Rs.16.12-Rs.30.52 Crore from FY 2020- 2022 against its maturity repayment obligations in the range of Rs.0.79-Rs.5.50 crore in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.13.73-19.40 crore against the maturing repayment obligations of Rs.5.78-6.66 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 169 days in FY2022 as against 148 days in FY2021. The average of utilization of the working capital facilities stood at 70%-75% per cent for Axis Bank and approx. 100% for CITI Bank for past 6 months ended November 2022. Further, there have been instances of adhoc limits availed by the Company time to time in the preceeding year. The primary reason for higher utilization of fund-based facilities can be attributed to the inherent cyclical in the Agri- machinery industry which is Sept-Nov and inventory peaks in the months of May-Nov. The company maintains unencumbered cash and bank balances of Rs.4.27 crore as on March 31, 2022. The current ratio stands at 1.78 times as on March 31, 2022 and 2021.

Acuite believes, KKL's liquidity profile will remain stretched over medium term in view of the ongoing capex and modest net cash accruals against repayment obligations.

Outlook: Stable

Acuité believes that the outlook on KKL will remain 'Stable' over the medium term on account of its experienced promoter, long track record of operations and moderate financial risk profile. 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 further 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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 199.61 | 215.38 |
| PAT | Rs. Cr. | 11.34 | 28.65 |
| PAT Margin | (%) | 5.68 | 13.30 |
| Total Debt/Tangible Net Worth | Times | 0.43 | 0.35 |
| PBDIT/Interest | Times | 8.52 | 53.02 |

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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|-----------------------------------|
| 05 Oct 2021 | Secured Overdraft | Long Term | 3.50 | ACUITE BBB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 15.00 | ACUITE BBB+ Stable (Reaffirmed) |
| | Cash Credit | Long Term | 31.00 | ACUITE BBB+ Stable (Reaffirmed) |
| | Cash Credit | Long Term | 18.50 | ACUITE BBB+ Stable (Reaffirmed) |
| | Term Loan | Long Term | 19.03 | ACUITE BBB+ Stable (Reaffirmed) |

| | | | | |
|-------------|-------------------------|-----------|-------|--|
| | Proposed Bank Facility | Long Term | 0.24 | ACUITE BBB+ Stable (Reaffirmed) |
| 22 Sep 2020 | Proposed Bank Facility | Long Term | 0.27 | ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable) |
| | Proposed Term Loan | Long Term | 15.00 | ACUITE BBB+ Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 10.00 | ACUITE BBB+ Stable (Assigned) |
| | Term Loan | Long Term | 15.00 | ACUITE BBB+ Stable (Assigned) |
| | Secured 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) |
| 27 Sep 2019 | Secured Overdraft | Long Term | 3.50 | ACUITE BBB Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.56 | ACUITE BBB (Withdrawn) |
| | Cash Credit | Long Term | 38.50 | ACUITE BBB Stable (Reaffirmed) |
| | Proposed Long Term Loan | Long Term | 1.27 | ACUITE BBB Stable (Reaffirmed) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|----------------------------------|--------------------|----------------|---------------------|------------------|-------------------|--|
| CITI Bank | Not Applicable | Cash Credit | Not Applicable | 6.50 | Not Applicable | Simple | 25.00 | ACUITE BBB Stable Downgraded |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 18.50 | ACUITE BBB Stable Downgraded |
| Axis Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 8.85 | ACUITE BBB Stable Downgraded |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 15.05 | ACUITE BBB Stable Downgraded |
| Axis Bank | Not Applicable | Secured Overdraft | Not Applicable | 7.60 | Not Applicable | Simple | 3.50 | ACUITE BBB Stable Downgraded |
| CITI Bank | Not Applicable | Term Loan | Oct 1 2021 12:00AM | 6.50 | Sep 30 2026 12:00AM | Simple | 3.92 | ACUITE BBB Stable Downgraded |
| Axis Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 5.47 | ACUITE BBB Stable Downgraded |
| Axis Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 6.98 | ACUITE BBB Stable Downgraded |

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About Acuité Ratings & Research

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