Press Release
Kisankraft Limited
March 27, 2024
Rating Reaffirmed

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

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

Rationale for Rating Reaffirmed
The reaffirmation in the rating takes into account steady operating performance of the company albeit volatility witnessed in the profitability margins. The operating income of the company stood at Rs.211.07 Cr in FY2023 as against Rs.199.61 Cr in FY2022, while its margins deteriorated to 6.84 percent in FY2023 from 11.59 percent in FY2022. The decline in margins is primarily on account of increase in raw material prices which mainly constitutes plastic components, increase in employee costs & increase in overseas freight costs.
The company also shows an improvement in the profitability margins in 10MFY2024. For 10MFY2024, the operating income of the company stood at ~Rs.200 Cr along with operating margins which stood at 11.64 percent and PAT margins at 4.64 percent. The rating also factors in the experienced management, established track record of operations and moderate financial risk profile marked by moderate net worth, low gearing and moderate debt protection metrics. However, the rating is constrained by elongated working capital cycle and forex exposure risk.
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 ~2800 dealers (as of February 2024 of which ~75% are permanent dealers and 25% are seasonal dealers), 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 FMTTI (Government of India's Farm Machinery Testing & Training Institute) and empanelled in various subsidy programs to encourage farm mechanization by most states in India.

Unsupported Rating
Not Applicable

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 managementteam'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 ~2800 dealers (as of February 2024 of which ~75% are permanent dealers and 25% are seasonal 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 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 moderate net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.95.69 crore as on 31 March 2023 as against Rs.95.71 crore as on 31 March, 2022. The total debt of the company stood at Rs.46.46 crore which includes short-term debt of Rs.36.03 crore, no long-term debt, as all the term loans has been repaid and CPLTD of Rs.10.43 crore as on 31 March, 2023. The gearing (debt-equity) stood at 0.49 times as on 31 March 2023 as compared to 0.43 times as on 31 March, 2022. Interest Coverage Ratio stood at 2.75 times for FY2023 as against 8.52 times for FY2022. Debt Service Coverage Ratio (DSCR) stood at 1.35 times in FY2023 as against 2.46 times in FY2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.96 times as on 31 March, 2023 as against 0.76 times as on 31 March, 2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.20 times for FY2023 as against 0.41 times for FY2022.

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

Weaknesses

Volatility in Profitability margins albiet steady operating income

The volatility was witnessed in the profitability margins even though the company achieved steady operating income of Rs.211.07 Cr. in FY2023 as against Rs.199.61 Cr. in FY2022. The operating margins deteriorated to 6.84 percent in FY2023 as against 11.59 percent in FY2022. The reason for consistent decrease in the margins of the company is because of the increase in prices of raw materials which mainly constitutes plastic components. Also, the reason for decrease in the margins is due to increase in the employee costs and prices of overseas (China) freight component. The prices went up nearly 12-13 times in last two years, due to which the supply chain got affected. Hence, the margins remain susceptible to volatility in raw material prices and foreign risk rates. Moreover, PAT margins stood at (0.04) percent in FY2023 as against 5.68 percent in FY2022 mainly due to high depreciation and interest costs.

Further, the company has shown improvement in the 10MFY24 EBITDA margins standing at 11.64 percent and PAT margins at 4.64 percent. The reason for improvement in EBITDA margins is due to reduction in the input costs, employee costs & streamline in factory operations and for the PAT margins is due to reduction in the depreciation and interest costs. Also, the company's operating income stood at Rs.200 Cr till February 2024.

Acuite believes that the company's revenue and margins will be a key rating factor looking at the industry in which the company caters to.

Working capital intensive nature of operations
The working capital management of the company is intensive marked by GCA days of 198 days in FY2023 as against 166 days in FY2022. The debtor days stood at 32 days in FY2023 as against 15 days in FY2022. W.r.t. the receivables, majority of sales is made on cash and carry basis. Only at Bangalore and Coimbatore, the company provides credit to some old dealers of 7-15 days. Majorly the realization is done in advance. The creditor days stood at 31 days in FY2023 as against 24 days in FY2022. W.r.t the payables, the company's policy is to make 70% of the payment in advance and the remaining 30% payment on documents at site as the company do not want too much of foreign exposure. The inventory holding period of the company stood at 143 days in FY2023 as against 131 days in FY2022. The company has to maintain high inventory on account of seasonal availability of its agricultural equipment. The dealers stock the material from the month of May-Nov and the season of sale starts from June till December. Thus, KKL maintains an average inventory of around 130-150 days over the period owing to the vast product portfolio it caters to.
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 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 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

Liquidity Position

Adequate
The company's liquidity position is adequate, marked by sufficient net cash accruals against its maturity debt obligations. The liquidity position of the company is adequate with average of utilization of the working capital facilities at 50-60% per cent for past 8 months ended January 2024. The primary reason for higher utilization of fund-based facilities can be attributed to the inherent cyclicality in the Agri- machinery industry which is Sept-Nov and inventory peaks in the months of May-Nov. The company has net cash accruals of Rs.9.34 Crore for FY2023 against its maturity repayment obligations of Rs.5.50 crore. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.17.60-21.66 crores over the medium term. The working capital management of the company is intensive marked by GCA days of 198 days in FY2023 as against 166 days in FY2022. The company maintains unencumbered cash and bank balances of Rs.0.93 crore as on March 31, 2023. The current ratio stands at 1.22 times as on March 31, 2023 as against 1.74 times as on March 31,2022.
Acuite believes, KKL's liquidity profile will remain adequate over medium term in view of the completed 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	211.07	199.61
PAT	Rs. Cr.	(0.09)	11.34
PAT Margin	(%)	(0.04)	5.68
Total Debt/Tangible Net Worth	Times	0.49	0.43
PBDIT/Interest	Times	2.75	8.52

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

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 Entitie: 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
28 Dec 2022	Cash Credit	Long Term	25.00	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Cash Credit	Long Term	18.50	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Covid Emergency Line.	Long Term	8.85	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Proposed Long Term Bank Facility	Long Term	15.05	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Secured Overdraft	Long Term	3.50	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Term Loan	Long Term	3.92	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Term Loan	Long Term	5.47	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Term Loan	Long Term	6.98	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
05 Oct 2021	Cash Credit	Long Term	31.00	ACUITE BBB+ | Stable (Reaffirmed)
	Cash Credit	Long Term	18.50	ACUITE BBB+ | Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.24	ACUITE BBB+ | Stable (Reaffirmed)
	Secured Overdraft	Long Term	3.50	ACUITE BBB+ | Stable (Reaffirmed)
	Term Loan	Long Term	4.03	ACUITE BBB+ | Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB+ | Stable (Reaffirmed)
	Term Loan	Long Term	15.00	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
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	18.50	ACUITE BBB | Stable | Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BBB | Stable | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.27	ACUITE BBB | Stable | Reaffirmed
Axis Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	7.60	Not avl. / Not appl.	Simple	3.50	ACUITE BBB | Stable | Reaffirmed
CITI Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	6.50	Not avl. / Not appl.	Simple	25.00	ACUITE BBB | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.