

Press Release

Khyati Advisory Services Limited

28 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Crore.
Long Term Rating	SMERA BB+/ Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as SMERA double B plus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 10.00 crore bank facilities of Khyati Advisory Services Limited (KASL). The outlook is '**Stable**'.

The Mumbai-based Khyati Advisory Services Limited (KASL) incorporated in 1993 by Mr. Ramesh Rughani (Managing Director), Mr. Hiren Raithatha and Mr Paresh Rughani is an ISO 9001:2008 certified one star export house. The company is engaged in the export of confectionaries, general provisions, spices, pulses among others to UAE, UK, Japan, USA to name a few.

Key rating drivers

Strengths

Established track record of operations, experienced management

KASL was incorporated in 1993. The Managing Director, Mr. Ramesh Rughani, a Chartered Accountant, has over 20 years of experience in the trading of the aforementioned. Thus, the company has been able to forge long term relations with customers and suppliers.

Diversified product range

KASL has a diversified range of products including confectionaries, general provisions, toiletries, pharmaceuticals which helps it maintain margins and profitability.

Comfortable working capital cycle

The working capital cycle of KASL is comfortable marked by GCA of 73 days in FY2017 as against 94 days in FY2016. The Gross Current Asset (GCA) days is mainly dominated by inventory of 22 in FY2017 as against 14 in FY2016 while the debtor days fell from 65 days to 36 days. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

Competitive and highly fragmented industry

KASL operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of players in the unorganised sector limits its bargaining power with customers.

Decline in profitability margins

Despite increase in revenue from Rs.33.25 crore in FY2016 to Rs 55.01 crore, the operating profit margins decreased from 4.10 percent in FY2015-16 to 2.61 percent in FY2016-17.

Similarly, PAT margins fell from 1.05 percent in FY2016 to 0.66 percent in FY2017 due to decrease in selling price as a result of increase in competition.

Foreign exchange fluctuation risk

KASL is exposed to forex fluctuation risk since it exports ~58 percent of its sales to UAE, UK, Malawi, Tanzania among others. However, the risk is partially mitigated through forward contracts of Rs. 13.00 crore. The company incurred forex gains of Rs. 0.29 crore in FY 2016-17.

Moderate financial risk profile

The financial risk profile is marked by gearing of 1.87 times in FY2017 compared to 2.54 times in FY2016. The coverage indicators have been moderate with Interest Coverage Ratio of 1.91 times in FY2017 and 1.92 times in FY2016. The NCA/TD stood at 0.12 times in FY2017 compared to 0.09 times in FY2016. The net worth stood at Rs 2.91crore in FY2017 compared to Rs 2.36 crore in FY2016.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of KASL to arrive at the rating.

Outlook – Stable

SMERA believes that KASL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	55.01	33.25	26.08
EBITDA	Rs. Cr.	1.44	1.36	1.21
PAT	Rs. Cr.	0.37	0.35	0.36
EBITDA Margin	(%)	2.61	4.10	4.66
PAT Margin	(%)	0.66	1.05	1.39
ROCE	(%)	16.80	17.19	35.83
Total Debt/Tangible Net Worth	Times	1.87	2.54	2.46
PBDIT/Interest	Times	1.91	1.92	1.93
Total Debt/PBDIT	Times	3.78	4.41	3.96
Gross Current Assets	Days	73	94	101

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

None

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB+/ Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+

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ABOUT SMERA

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