

Press Release

R Kuppuswamy

August 06, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.11.25 Cr.
Long Term Rating	ACUITE BB-/Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE BB-**' (read as **ACUITE double B Minus**) and short-term rating of '**ACUITE A4** (read as **ACUITE A four**)' on the Rs.11.25 crore bank facilities of R Kuppuswamy. The outlook is '**Stable**'.

R Kuppuswamy (RK), established in 1977 is a Bangalore based partnership firm promoted by Mr. R. Kuppuswamy and his sons as Partners. Firm is a consignment sales agent (CSA) for Rashtriya Ispat Nigam Ltd (RINL) on commission, for the locations of Bangalore and Coimbatore since 1990. Earlier RK were the consignment agents for Steel Authority of India Limited (SAIL) and Indian Iron and Steel Co Limited (A Subsidiary of SAIL). Apart from CSA, R KUPPUSWAMY is having a 1x1250 kW SUZLON Make Wind Mill at Kundadam Village, Erode Dist. Tamil Nadu commenced in January 2007.

Key Rating Drivers

Strengths:

Long track record and extensive experience of the promoters in steel Industry:

Established in 1977, the firm has been in the material handling business (steel) for over four decades. RK has own stock yard in 8.5 acres of land at Bangalore, and in Coimbatore in a leased land of 4.00 acers for stocking and dispatches for RINL. The established relationship with RINL helped the RK's in reporting a compound annual growth rate of about 11 percent over four years through FY2018 (Prov.) with revenues of about Rs.11.87 crores in FY2018.

Average financial profile:

The financial risk profile is average marked by healthy gearing (debt-to-equity) and average debt protection metrics. RK's gearing is healthy at 0.73 times as of March 31, 2018 (Provisional), significant improvement from 2.28 times in the previous year; gearing has improved due to repayment of unsecured loans in FY2018 (Prov.) out of the compensation proceeds it received on land acquisition by Bengaluru Metro. The net worth is modest at Rs.23.79 crore as on 31 March, 2018 (Provisional) as against Rs.11.38 crore as on 31 March, 2017; improvement is owing to profit accrued on acquisition of land. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt are average at 2.21 times and 0.05 times in FY2018 (Provisional). Acuite believes that the financial risk profile is expected to be moderate over the medium term supported in the absence of significant debt-funded capex plans and efficient working capital management.

Weakness:

Working capital intensive operations:

RK's operations are working capital intensive, as marked by high gross current assets (GCA) of 306 days in FY2018 (provisional), 504 days in FY2017; high GCA is owing to high receivable days of about 169 days in FY2018 and 2017, and other current assets primarily of advances given. This caused the bank lines to be highly utilized at about 93 per cent over six months through May 31, 2018. Acuite believes that the operations of RK's are continues to be working capital intensive due to the nature of business, and increasing scale of operations.

Fluctuating operating margins:

Profitability margins are volatile, though high over the past four years through FY2018 due to service nature of work. Its operating margins in FY2015 was 22.8 per cent, which increased to 26.8 per cent in FY2016. However, it declined sharply to 18.1 per cent in FY2017 and its at around similar levels in FY2018. At Operating PBT level, it incurred losses in FY2016 and 2017 due to high interest costs. Acuite believes that with the expected increase in scale of operations, the margins are expected to maintain at stable level of around 18 per cent over the medium term.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the RK's to arrive at the rating.

Outlook: Stable

Acuite believes that the outlook on RK's will remain stable over the medium term on account of the experience of the promoters and established relationship RINL. The outlook may be revised to Positive if the firm is able to scale up its operations while maintaining the profitability and improving its working capital management. The outlook may be revised to negative in case of stretch in its working capital management or sharp volatility in its operating margins leading to pressure on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	10.80	8.62	7.86
EBITDA	Rs. Cr.	1.95	2.31	1.79
PAT	Rs. Cr.	8.57	(0.47)	0.53
EBITDA Margin	(%)	18.08	26.85	22.81
PAT Margin	(%)	79.39	(5.42)	6.80
ROCE	(%)	34.28	7.22	12.46
Total Debt/Tangible Net Worth	Times	2.28	3.78	2.71
PBDIT/Interest	Times	8.08	1.20	2.07
Total Debt/PBDIT	Times	2.05	10.67	9.84
Gross Current Assets (Days)	Days	296	504	536

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>

Note on complexity levels of the rated instrument

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

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.25	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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