



Press Release

R KUPPUSWAMY

October 29, 2019

Rating Reaffirmed

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

Acuité has reaffirmed long-term rating of 'ACUITE BB-' (read as ACUITE double B minus) and short term rating of 'ACUITE A4' (read as ACUITE A four) from ACUITE A4 on the Rs. 11.25 crore bank facilities of R KUPPUSWAMY (RK). The outlook is 'Stable'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates. RK reported revenues of Rs.14.16 crore for FY2019 (provisional) against Rs.11.67 crore in FY2018. Further, the ratings continue to reflect the experienced management, established track record of operations and comfortable financial risk profile. However, it is constrained by working capital intensive nature of its operations.

R Kuppuswamy (RK), established in 1977 is a Bangalore based partnership firm promoted by Mr. R. Kuppuswamy and his sons as Partners. The 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, the firm is having a 1x1250 kW SUZLON Make Wind Mill at Kundadam Village, Erode Dist. Tamil Nadu commenced in January 2007.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of RK to arrive at the rating.

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 acres for stocking and dispatches for RINL. The established relationship with RINL helped the RK's in reporting a compound annual growth rate of about 18 percent over three years through FY2019 (Provisional) with revenues of about Rs.14.16 crores in FY2019. Acuité believes that proven operational track record and longstanding presence of the promoters is expected to support in improving its business risk profile over the medium term.

• Comfortable financial profile

RK has Comfortable financial risk profile characterised by healthy gearing (debt-to-equity), healthy total outside liabilities to total net worth (TOL/TNW) and strong coverage indicators. Gearing and TOL/TNW have improved to 0.47 times and 0.68 times as of March 31, 2019 against 0.55 times and 0.74 times in FY2018, respectively; owing to less reliance on external debt and moderate net worth of Rs.29.77 crore as on March 31, 2019. The debt-coverage indicators also comfortable, as reflected by interest coverage ratio of 3.79 times and net cash accrual to total debt of 0.18 times for FY2019 Vis-à-vis 2.95 times and 0.15 times for FY2018. RK generated cash accruals of Rs.2.52 crore during the last year 2018-19, while it's maturing debt obligations were below 0.30 crore over the same period. The cash accruals are estimated to remain around Rs.3.00-3.50 crore during 2020-22, while its repayment

obligations are estimated to be around Rs.0.50 crore over the same period. Going forward, an expectation of improved cash accruals is expected to help the company in maintaining a comfortable financial risk profile over the medium term.

Weaknesses

• Moderate working capital operations

RK's operations are working capital intensive, as marked by high gross current assets (GCA) of 277 days in FY2019 (provisional), 240 days in FY2018; high GCA is owing to high receivable days of about 131 days in FY2018 and 2017, and other current assets primarily of advances given. This caused the bank lines to be highly utilized at about 90 per cent over six months through August 31, 2019. Acuité believes that the operations of RK's are continues to be working capital intensive due to the nature of business.

Rating Sensitivities

- Scaling up of operations, while improving profitability margins while maintains its current financial risk profile.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

None

Liquidity position: Adequate

RK has generated cash accruals of Rs.2.52 crore during the last year 2018- 19, while it's maturing debt obligations were below 0.30 crore over the same period. The cash accruals are estimated to remain around Rs.3.00-3.50 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.50 crore over the same period. The working capital operations are high as marked by gross current asset (GCA) days of 277 in FY2019 (Provisional) as compared to 240 days in FY2018. The cash credit limit remained utilized at ~90 per cent during the last six months period ended August 2019. The unencumbered cash and bank balances stood at Rs.0.50 crore as on March 31, 2019 (Provisional). The current ratio stood at 3.51 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the RK is likely to remain adequate over the medium term on account increasing net cash accruals against maturing repayment obligations and moderate nature of working capital operations.

Outlook: Stable

Acuité 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 any volatility in its operating margins leading to pressure on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	14.16	11.67	10.80
EBITDA	Rs. Cr.	3.67	2.35	1.95
PAT	Rs. Cr.	1.32	1.54	8.57
EBITDA Margin	(%)	25.92	20.10	18.08
PAT Margin	(%)	9.31	13.18	79.39
ROCE	(%)	7.36	8.81	34.28
Total Debt/Tangible Net Worth	Times	0.47	0.68	2.28
PBDIT/Interest	Times	3.79	2.95	8.08
Total Debt/PBDIT	Times	3.24	3.83	2.05
Gross Current Assets (Days)	Days	277	240	296

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

Not Applicable

Any other information

Not Applicable

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>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Aug-2018	Cash Credit	Long Term	2.00	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	9.25	ACUITE A4 (Assigned)

*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 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	9.25	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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