

Press Release

Krishna Kumar Agro Products

August 24, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.5.50 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs.5.50 crore bank facilities of Krishna Kumar Agro Products (KKAP). The outlook is '**Stable**'.

KKAP, established in 2017, is a sole proprietorship concern of Mr. Krishna Kumar Doredla. The firm is based in Guntur (Andhra Pradesh) and is engaged in processing and trading of urad dal. The processing plant is located in Guntur with an installed capacity of three metric tons per hour. It sells its products under various brand names such as XXXL, Rocket, Jyothi, Power Horse, Mayuri.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the Krishna Kumar Agro Products to arrive at this rating.

Key Rating Drivers:

Strengths:

Experienced Proprietor:

The Proprietor has experience of around two decades in the dal processing business. Earlier, he was doing business under the firm 'Sai Ganesh Traders', a semi-modernised processing unit. The new unit, setup in 2017, was fully modernised in their own premises located at Guntur (Andhra Pradesh). Though the vintage of operations is small and FY2018 is its first full year of operations, it has reported revenues of about Rs.28.40 crore, though modest in the industry.

Acuite believes that the Proprietor's local presence, proximity to the pulse mandis in Guntur, long operational track record and established relationship with the suppliers and the customers are expected to support in improvement of its business risk profile over the medium term.

Efficient working capital management:

The operations are managed efficiently with Gross Current Assets (GCA) of about 115 days in FY2018; comprising of inventory and receivable days of about 70 and 45 days respectively. The efficient working capital management coupled with Proprietor's financial flexibility in terms of infusion of funds by way of unsecured loans resulted in moderate utilisation of its bank lines at about 50 percent over past six months through June 2018. Acuite believes that KKAP's operations are expected to be at similar levels over the medium term.

Weaknesses:

Below Average financial profile:

The financial risk profile is marked by modest net worth, high total outside liabilities to total net worth (TOL/TNW) though underpinned by moderate debt protection metrics. Its net worth is modest at about Rs.2.06 crore (Provisional) as on March 31, 2018 as against Rs.1.35 crore as on March 31, 2017 on account of modest accretion to reserves and limited track record of operations. Its gearing is high at 3.0 times and TOL/TNW at 4.76 times (Provisional) as on March 31, 2018 as against 2.77 and 3.70 times

respectively as on March 31, 2017. The debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 2.26 times and 0.11 times respectively for FY2018 (Provisional).

Acuite believes that the financial risk profile is expected to improve on the back of increasing revenue profile and absence of any major debt-funded capex over the medium term.

Intense competition and exposed to agro-climatic risks:

The flour-milling industry is intensely competitive with the presence of a large number of organised and unorganised players. The firm's margins are vulnerable to raw material price trends on account of its inability to pass on the increased raw material cost as reflected in its operating margins oscillating at around 4.5 – 6.0 percent in last two years. The firm's business profile is susceptible to agro-climatic risks, which could affect the availability of urad dal in adverse weather conditions.

Outlook: Stable

Acuite believes that the outlook on KKAP will remain 'Stable' over the medium term on account of the experienced Proprietor. The outlook may be revised to 'Positive' in case the firm registers more-than-expected revenues while maintaining its profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle due to higher than expected inventory levels or any significant withdrawal of funds resulting in stretch in the liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actuals)
Operating Income	Rs. Cr.	2.69
EBITDA	Rs. Cr.	0.16
PAT	Rs. Cr.	0.15
EBITDA Margin	(%)	5.96
PAT Margin	(%)	5.60
ROCE	(%)	6.33
TOL/Tangible Net Worth	Times	3.70
Gross Current Assets (Days)	Days	433

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>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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	3.50	ACUITE B+ / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+ / Stable (Assigned)

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About Acuité Ratings & Research:

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