



Press Release

C N Coffee Trading Co

October 16, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs. 10.00 crore bank facilities of C N COFFEE TRADING CO. The outlook is '**Stable**'.

C N Coffee Trading Co (CNCTC) is a Karnataka based partnership firm established in the year 2015 by Mr. C N Akmal and family. It is engaged in trading of coffee seeds. The firm procures raw coffee seeds from the local farmers and registered coffee dealers in Karnataka and sells them in both overseas and domestic markets. It sells coffee seeds to some of the reputed customers such as Olam Coffee International, Tata Coffee Limited, Indian Products Private Limited, Olam Agro Private Limited, Om Sri International among others.

Key Rating Drivers

Strengths

- **Experienced management**

C N Coffee Trading Co is promoted by Mr. Akmal and his family members. Mr. Akmal is the managing partner possesses more than a decade experience in the industry. He is also managing 'C N Coffee Curing Works' a proprietorship firm since 2004 which is a coffee curing unit. Experience of the management in the industry has helped them in easy sourcing of raw materials and acquiring customers in the market; which is reflected in moderate revenue growth from Rs.173.95 crore in FY2015 to Rs.222.35 crore in FY2017 and Rs.235.66 crore in FY2018 (Provisional). Further, the firm reported revenues of about Rs.100 crore for the four months period (April to July) in FY2019. Acuité believes that, promoter's experience in the industry will benefit the firm over the medium term.

- **Efficient working capital management**

Working capital cycle of the firm is efficiently managed with gross current assets of about 39 days in FY2018 (Provisional) an improvement from 51 days in FY2017. This is mainly on account of improvement in debtors to 10 days in FY2018 (Provisional) from 20 days in FY2017. The firm gives a credit of about 15-20 days to its customers. The firm's inventory stood at 20 days in FY2018 (Provisional) and 21 days in FY2017. The same is supported by credit from suppliers of about 30 days in FY2018 (Provisional) leading to average utilization of bank limits at comfortable levels of about 40 percent for the last six months through July 2018. Acuité believes that, operations are expected to be efficiently managed in the medium term on account quick realization of debtors and moderate inventory management.

Weaknesses

• Weak financial risk profile

Financial risk profile of the firm is weak marked by high total outside liabilities to total net worth (TOL/TNW), high gearing (debt to equity ratio), though underpinned by comfortable debt protection metrics. TOL/TNW is high at 11.45 times as on 31 March, 2018 as against 17.33 times in the previous year. Gearing is high at 2.15 times as on March 31, 2018 as against 2.80 times as on March 31, 2017. This is mainly on account of low net worth and high reliance on external funds for working capital management and high credit from suppliers. Net worth stood at Rs.2.05 times as on March 31, 2018 as against Rs.1.75 times as on March 31, 2017. However, debt protection metrics of interest coverage ratio is comfortable at 2.28 times in FY2018 (Provisional). Acuite believes that, financial risk profile of the firm is expected to be at similar levels due to modest accretions to reserves and high dependence on external borrowings or working capital requirement.

• Susceptibility of margins to volatility in raw material prices

Operating margins of the firm are low due to trading nature of the business. Further, operating margins are exposed to commoditized nature of coffee. The firm's earnings are exposed to the seasonal/periodical swings in the coffee prices, demand and supply scenario in the global markets and agro climatic conditions. Any adverse moment in prices will affect profitability of the firm, though it is partially mitigated by managing the inventory holding levels at minimal levels.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the CNCTC to arrive at this rating.

Outlook: Stable

Acuite believes that CNCTC will maintain a 'Stable' outlook over the medium term from its promoters' industry experience and stable demand for the product. The outlook may be revised to 'Positive' in case of significant improvement in its profitability while improving its capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of any significant decline in profitability or any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	235.66	222.35	173.95
EBITDA	Rs. Cr.	0.54	0.22	0.14
PAT	Rs. Cr.	0.30	0.15	0.14
EBITDA Margin	(%)	0.23	0.10	0.08
PAT Margin	(%)	0.13	0.07	0.08
ROCE	(%)	8.19	6.38	70.78
Total Debt/Tangible Net Worth	Times	2.15	2.80	0.00
PBDIT/Interest	Times	2.28	3.00	47.63
Total Debt/PBDIT	Times	8.22	21.76	0.00
Gross Current Assets (Days)	Days	39	51	13

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B / Stable

Contacts

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About Acuité Ratings & Research:

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