

Press Release

Krishna Traders.

March 02, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.52.00 Cr. (Revised from Rs.58.00Cr)
Long Term Rating	ACUITE BBB-/ Outlook:Negative (Reaffirmed and outlook Revised)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.52.00 Cr bank facilities of Krishna Traders (KT). The outlook is revised to '**Negative**' from '**Stable**'.

Revision of Outlook

The revision in the outlook is driven by the pressures faced by the KT in its operating performance on account of slowdown in the demand and supply. Further, the outlook is also revision to negative on account of significant decline in the EBITDA and deterioration in the profitability margin which added pressure on the financial risk profile and coverage ratios of the firm. The EBITDA has declined to Rs.(1.34)Cr in FY2020 as against Rs.1.44Cr in FY2019. Further the operating margin has declined to (0.58) percent in FY2020 as against 0.41 percent in FY2019. The interest coverage ratio and the debt service coverage ratio have declined to 1.49 times and 1.32 times respectively in FY2020 as against 2.17 times and 1.73 times, respectively in FY2019.

Krishna Traders was established in the year 1953 as a proprietorship concern by Mr. Late Netai Mohan Saha. Later in the year 1996, the firm was reconstituted as a partnership concern. KT is a Kolkata based firm engaged in trading of food grains, paper and paper products, raw cotton, onion, chili, chemicals, and spices. The firm became an export house in 1979 and since 1986, KT is a 3 star export house with exports to Bangladesh, China, Sri Lanka, Myanmar, and Nigeria. Currently, the operations are managed by the second generation of the Saha family, namely, Mr. Debasish Saha, Mr. Shekhar Saha, and Mr. Tapan Mohan Saha with equal profit sharing ratio.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operation and experienced management**

Established in the year 1953, KT has a long track record of over six decades in the trading business. The long track record of the firm has resulted in developing an established market position in Eastern India backed by diversified product profile where it trades in nearly 50 items with major sales from food grains, paper and paper products, raw cotton, onion, chili, chemicals, and spices. The long track record of operation has further enabled the firm to build a long standing relationship with customers and suppliers. The customer base includes traders, distributors and government departments.

Acuite expects the business risk profile to remain healthy backed by experienced management, established relationship with customers and strong PAN India based procurement channels.

- **Working capital operation is efficient in nature**

KT's working capital operation is efficient in nature as it is reflected by its Gross Current Asset (GCA) days of around 70 days in FY2020 as against 51 days in FY2019. The inventory holding period stood at 19 days as on March 31, 2020 as against 10 days as on March 31, 2019. The firm maintains a low inventory and also 80 percent of all purchases are backed by confirmed orders thus mitigating any potential inventory loss. The debtor collection period stood at 30 days as on March 31, 2020 as against 25 days as on March 31, 2019. On the other hand the credit payment period to its supplier stood at 32 days as on March 31, 2020 as against 19 days as on March 31, 2019. The bank limit utilization stood moderately high at around 79.50 percent for the last six months ended December 2020, while its peak utilization stood high at 98.00 percent during the same period.

Acuite expects the working capital management to remain efficient over the medium term on account of low inventory holding period.

Weaknesses

- **Moderate Financial Risk Profile**

KT's financial risk profile is moderate marked by moderate net worth, moderately high gearing coupled with moderate debt protection metrics and coverage indicators. The firm's net worth stood at Rs.21.77Cr as on March 31, 2020 as against Rs.22.19Cr as on March 31, 2019. The firm has followed aggressive financial policy in the past. The gearing continues to be high; however it has improved to 1.02 times as on March 31, 2020 as against 1.67 times as on March 31, 2019. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 2.45 times as on March 31, 2020 as against 2.94 times as on March 31, 2019. The firm, on the other hand, generated cash accruals of Rs.1.24Cr in FY2020 as against Rs.1.87Cr in FY2019.

The revenue of the firm has declined by around 33.28 percent to Rs.232.11Cr in FY2020 from Rs.347.87Cr in FY2019. EBITDA has declined to Rs.(1.34)Cr in FY2020 as against Rs.1.44Cr in FY2019. The PAT of the firm has declined marginally to Rs.1.16Cr in FY2020 as against Rs.1.80Cr in FY2019. The moderate profitability level, coupled with moderate debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.06 times and 1.49 times, respectively as against 0.05 times and 2.17 times in FY2019. The debt service coverage ratio stood at 1.32 times in FY2020 as against 1.73 times in FY2019. The Debt-EBITDA ratio stands at 3.81 times in FY2020 against 6.61 times in FY2019.

Acuite believes the financial risk profile of the firm will continue to remain moderate on account of its moderate cash accruals and no major debt funded capex in near to medium term.

- **Decline in the profitability margins**

The profitability margin has declined significantly in FY2020 as against FY2019. The operating margin stood at (0.58) percent in FY2020 as against 0.41 percent in FY2019. The PAT margin stood at 0.50 percent in FY2020 as against 0.52 percent in FY2019. The fluctuation in the profitability margin is due to trading nature of business.

Liquidity Position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals against no maturing debt obligations. The firm generated cash accruals of Rs.1.24Cr in FY2020, while the maturing debt obligation was nil for the same period. The cash accrual of the firm is estimated to remain around Rs.2.20Cr to Rs.3.50Cr during 2021-23 against no significant repayment obligations during the same period. The firm's working capital operations is efficient in nature marked by the Gross Current Asset (GCA) days of 70 days in FY2020 as against 51 days in FY2019. The average bank limit utilization stood moderately high at around 79.50 per cent for six months ended December, 2020. The firm maintains unencumbered cash and bank balances of Rs.2.43Cr as on 31 March 2020. The current ratio of the firm has improved to 1.31 times as on 31 March 2020 from 1.26 times as on March 31, 2019.

Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals against nil maturing debt obligations.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Significant improvement in the EBITDA level, thereby resulting above moderate financial risk Profile

Outlook: Negative

Acuite has revised the outlook of KT to 'Negative' due to subdued operating performance, which has added pressure on the coverage indicators and profitability margins. The rating may be downgraded in case of sustained decline in the revenue profile leading to low profitability and deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable', in case of improvement in the operating income, thereby resulting in a healthy EBITDA, leading to improvement in the profitability, working capital cycle and financial risk profile which will help the firm to improve its leverage indicators and coverage ratios.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	232.11	347.87
PAT	Rs. Cr.	1.16	1.80
PAT Margin	(%)	0.50	0.52
Total Debt/Tangible Net Worth	Times	1.02	1.67
PBDIT/Interest	Times	1.49	2.17

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Feb-2019	Cash Credit	Long Term	1.50	ACUITE BBB-/Stable (Assigned)
	FBN/FBP/FBD/PSFC/FBE	Short Term	16.00	ACUITE A3 (Assigned)
	FBN/FBP/FBD/PSFC/FBE	Short Term	9.50	ACUITE A3 (Assigned)
	PC/PCFC	Short Term	12.00	ACUITE A3 (Assigned)
	PC/PCFC	Short Term	11.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (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	1.00 (Revised from Rs.1.50Cr)	ACUITE BBB-/Negative (Reaffirmed and outlook is revised)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	16.00#	ACUITE A3 (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	7.50* (Revised from Rs.9.50Cr)	ACUITE A3 (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00#	ACUITE A3 (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.50 (Revised from Rs.11.00Cr)	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00^	ACUITE A3 (Reaffirmed)

*One way interchangeability from PC to FBP to the extent of Rs.5.00Cr

^Includes Sublimit of LC to the extent of Rs.4.00Cr

#Both way interchangeability between FDBP and PC limit up to the extent of Rs.3.00Cr

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuute.in Kumar Abhisek Analyst - Rating Operations Tel: 011-49731308 kumar.abhisek@acuute.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuute.in

About Acuité Ratings & Research:

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