

Press Release

Kavin Products

November 18, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BB- / Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité 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**) to the Rs.20.00 crore bank facilities of KAVIN PRODUCTS (KP). The outlook is '**Stable**'.

Kavin Products (KP), a partnership firm established in the year 2016 is engaged in processing and milling of paddy into rice, broken rice, rice bran and husk, commenced its production recently in 2018 at Tiruvannamalai, Tamil Nadu. The firm is promoted by Mr. E.V Velu, Mr. V.M. Vigneshwar and Mrs. M. Padma.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KP to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced promoters**

Mr. E.V. Velu has long experience in the field of education and in public life. He has served as a Minister of Food and Consumer protection in Tamil Nadu Government cabinet from 2006-11. Mr. Vigneshwar is an MBA graduate in Marketing and Management from the University of North Carolina, USA. The promoters have appointed a discerning expert in the industry that has helped the firm in day to day activity resulting in revenues of Rs.32.24 crore in their first year of operations with an operating margin of 13.23 percent. The firm offers its products to various regions in Southern India, namely Andhra Pradesh, Tamil Nadu and Karnataka. Acuité believes that the partners' presence in the Food and Consumer industry and moderate geographical diversity are expected to support in improvement of its business risk profile over the medium term.

- **Moderate working capital management**

The firm's operations are moderate evident from Gross Current Assets (GCA) of about 113 days through FY2019 due to efficient collection of trade receivables at about 14 days. GCA majorly comprises of high inventory holding due to seasonality and stood at about 85-95 days. The group procures the paddy in the peak season and keeps it for ageing for value realisation partly. The group purchases paddy mainly against spot payment; continuous procurement of paddy results in high utilisation of its bank lines at around 95 per cent in the past six months through October 2019 and operations continues to be moderate over the medium term. Acuité believes the working capital operations are expected to remain in the same range on account of high inventory holding cycle.

Weaknesses

- **Moderate financial risk profile**

KP's financial risk profile is moderate marked by moderate capital structure comprising of moderate gearing (debt- equity) and total outside liabilities to total net worth (TOL/TNW); partly supported by moderate debt protection metrics. The firm's gearing and TOL/TNW is slightly on a higher side at 3.65 times and 4.53 times respectively as on March 31, 2019. Its net worth is low at Rs.4.67 crore as on March 31, 2019. The firm had incurred a capital expenditure of ~Rs.18 crore which was funded by term loans from bank of

Rs.12 crore and partner's contribution. Debt protection metrics stood moderate marked by Interest Coverage Ratio (ICR) at 2.30 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.14 times as on March 31 2019. The group has reported cash accruals of about Rs.2.43 crores in FY2019. Acuité believes that the financial profile of the firm is expected to be at similar levels over the medium term owing to profitability margins and moderate working capital management though partly supported by absence of any further significant debt-funded capex plans.

- **Nascent stage of operations and modest scale of operations**

KP commenced its operations during FY2018; with FY2018-2019 being the first full year of operations leading to revenues at about Rs.32.24 crore in FY2019. However, the entity being in nascent stage has managed to achieve operating margins at 13.23 percent. Acuité believes that stabilisation of operations and improvement in the revenue and margins will be the key rating sensitivity factors.

- **Highly competitive and fragmented industry affected by agro climatic risks**

The agro commodity (rice) industry is highly competitive with multiple players coupled with low entry barriers resulting into intense competition from both the organised as well as unorganised players. Paddy which is the main raw material required for rice is a seasonal crop and adequate and timely availability is highly dependent upon monsoon. Thus, inadequate or erratic rainfall may have a bearing on availability as well as pricing of paddy and have a bearing on the pricing of rice as well as the profitability.

Rating Sensitivities

- Stabilisation of operations and improvement in the revenue and expected growth in the profitability margins
- Stretch in its working capital management or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

Material Covenants

The bank stipulates the Current ratio to be maintained at 1.33 times and TOL/TNW at 3.5 times during the duration of the facilities with the bank.

Liquidity: Stretched

The liquidity profile of the firm is stretched owing to tightly matching cash accruals against the repayment obligations. The firm has reported cash accruals of Rs.2.43 crore in FY2019. It is expected to generate cash accruals in the range of Rs.3.00 crore to 3.20 crore over the medium term, against which its repayment obligations are about Rs.2.40 crore, which gives moderate cushion for the incremental working capital requirements and the liquidity, going forward. Working capital utilisation is about 96 per cent on an average for the last six months through October 2019. The current ratio stood at 0.99 times for FY2019. Acuité believes that the liquidity profile continues to be stretched though partly supported by moderate cash accruals and moderate working capital management with quick turnaround of the working capital cycle.

Outlook: Stable

Acuité believes that the firm will maintain a 'Stable' outlook on account of the management's background and resourcefulness in the rice milling business and its liaisons with customers. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	32.24	-	-
EBITDA	Rs. Cr.	4.26	-	-
PAT	Rs. Cr.	0.21	-	-
EBITDA Margin	(%)	13.23	-	-
PAT Margin	(%)	0.64	-	-
ROCE	(%)	19.15	-	-
Total Debt/Tangible Net Worth	Times	3.65	-	-

PBDIT/Interest	Times	2.30	-	-
Total Debt/PBDIT	Times	3.96	-	-
Gross Current Assets (Days)	Days	113	-	-

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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	6.00	ACUITE BB-/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	10.55	ACUITE BB-/Stable (Assigned)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	2.57	ACUITE BB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.88	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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