

Press Release

Kavin Products

October 28, 2020



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating**	ACUITE BB-/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) for the bank facilities aggregating to Rs.20.00 crore of Kavin Products. The outlook is '**Stable**'.

The rating reaffirmation is based on the experience of the promoters and the relatively organised management of the working capital operations. The ratings, however, remain constrained at the same level due to the on-going stretch in liquidity and the moderate capital structure of the firm.

Kavin Products, a partnership firm established recently in the year 2018, is engaged into the processing of paddy and milling of rice in the state of Tiruvannamalai, Tamil Nadu. The firm was promoted by Mr. E.V Velu and Mr. Vigneshwar.

Analytical Approach

Acuité has considered the standalone business and financial profile of Kavin Products for arriving at the rating.

Key Rating Drivers

Strengths

- **Experience of management and support from integrated operations of group company**

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.44 Cr in their second year of operations with an operating margin of 8.24 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 operations**

The firm's operations are moderate evident from Gross Current Assets (GCA) of about 106 days through FY2020 (Prov) against 113 days in FY2019 due to efficient collection of trade receivables at about 7 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 97 per cent in the past six months through September 2020 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 a 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 has improved but stood slightly on a

higher side at 2.52 times and 2.84 times respectively as on March 31, 2020 (Prov) against 3.65 times and 4.53 times as on March 31, 2019. Its net worth is low at Rs.6.98 Cr as on March 31, 2020 (Prov).

Debt protection metrics stood moderate marked by Interest Coverage Ratio (ICR) at 2.43 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.12 times in FY2020 (Prov). The firm has reported cash accruals of about Rs.2.19 Cr in FY2020 (Prov). 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.

• 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 in 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

- Scaling up operations while achieving sustained improvement in topline and profitability margins
- Stretch in working capital operations leading to liquidity constraints

Liquidity: Stretched

The liquidity profile of the firm is stretched owing to mismatching cash accruals against the repayment obligations. The firm has reported cash accruals of Rs.2.19 Cr in FY2020 (Prov) against repayment obligations of Rs.2.40 Cr. It is expected to generate cash accruals in the range of Rs.1.74 Cr crore to 3 Cr over the medium term, against which its repayment obligations are about Rs.2.4 Cr, which gives no cushion for the incremental working capital requirements and the liquidity, going forward. However, the same is safeguarded by the timely infusion of funds by partners in the form of capital into the business as demonstrated by infusion of Rs.2.00 Cr in FY2020 (Prov). Working capital utilisation is about 97 per cent on an average for the last six months through September 2020. The current ratio improved and stood at 1.59 times as on 31st March, 2020 (Prov). Acuité believes that the liquidity profile continues to be stretched though partly supported by moderate cash accruals and moderate working capital management with a quick turnaround of the working capital cycle.

Outlook: Stable

Acuité believes that KP 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 the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	44.76	32.24
PAT	Rs. Cr.	0.26	0.21
PAT Margin	(%)	0.58	0.64
Total Debt/Tangible Net Worth	Times	2.52	3.65
PBDIT/Interest	Times	2.43	2.30

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

None

Any other information

None

Any Material Covenants

- Current Ratio > 1.33 x
- TOL/TNW < 3.5 x

Applicable Criteria

- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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-Nov-2019	Cash Credit	Long Term	6.00	ACUITE BB-/Stable (Assigned)
	Term Loans	Long Term	10.55	ACUITE BB-/Stable (Assigned)
	Proposed Facility	Long Term	2.57	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	0.88	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	6.00	ACUITE BB-/Stable (Reaffirmed)
Term Loan I	13-07-2017	9.60%	13-08-2023	3.50	ACUITE BB-/Stable (Reaffirmed)
Term Loan II	22-09-2018	9.35%	20-02-2024	0.25	ACUITE BB-/Stable (Reaffirmed)
Term Loan III	09-06-2017	9.65%	09-07-2023	3.50	ACUITE BB-/Stable (Reaffirmed)
Term Loan IV	22-12-2017	10.15%	22-01-2024	0.33	ACUITE BB-/Stable (Reaffirmed)
Term Loan V	03-01-2020	10.15%	03.09.2025	0.50	ACUITE BB-/Stable (Assigned)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	5.92	ACUITE BB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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