

Press Release

Ramesh Kumar & Co

November 06, 2019

Rating Reaffirmed



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs.16.00 Cr. |
| Long Term Rating | ACUITE B+/ Outlook: Stable |
| Short Term Rating | ACUITE A4 |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.16.00 crore bank facilities of Ramesh Kumar & Co (RKC). The outlook is '**Stable**'.

Delhi-based, RKC is a sole proprietorship firm established by Mr. Somnath Aggarwal. The firm is engaged in trading of a variety of rice, namely Basmati Rice, Idli Rice, Ponni Rice, Pusa Basmati Rice, SonaMasoori Rice and Super Basmati Rice. The warehouse of the firm is located at Karnal near New Delhi. RKC procures rice from mandis and milling companies located locally.

Analytical Approach

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

Key Rating Drivers

Strengths

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

Mr. Somnath Aggarwal (Proprietor) has an experience of over three and a half decades in the aforementioned line of business. The established track record of operations and experience of the management has helped the firm to develop healthy relationships with its customers and suppliers. Acuité believes that the firm will continue to benefit from the proprietor's established presence in the industry and its improving business risk profile over the medium term.

- **Efficient working capital operations**

Operations of the firm are working capital efficient marked by gross current assets (GCA) of 55 days in FY2019 as compared to 87 days in FY2018. This is on account of debtors' collection period of 20 days in FY2019 as against 34 days in FY2018 and inventory holding period of 29 days in FY2019 as against 39 days in FY2018.

Acuité believes that the working capital operations of the firm will continue to remain efficient over the medium term on account of efficient debtors' collection period.

Weaknesses

- **Modest financial risk profile**

The firm has modest financial risk profile marked by high gearing and modest debt protection metrics. The net worth stood at Rs.10.34 crore as on 31 March, 2019 as against Rs.9.56 crore on 31 March, 2018 due to moderate accretion to reserves. The firm has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 2.11 times as on 31 March 2018. The gearing levels improved to 1.51 times as on 31 March, 2019 (Provisional). The total debt of Rs.15.57 crore as on 31 March, 2019 consisted of term loan of Rs. 0.09 crore, unsecured loans of Rs.4.78 crore and working capital requirement of Rs.10.70 crore. The interest coverage ratio stood at 1.21 times for FY2019 as compared to 1.23 times for FY2018. Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.02 times as on 31 March 2019 as against 3.07 times as on 31 March 2018.

The revenues of the firm increased by around 30.71 per cent to Rs.201.63 crore during FY2018-19, while its operating margins deteriorated to 0.41 percent as against 1.02 percent in FY2017-18. The low profitability

coupled with high gearing level has led to modest debt protection metrics. The net cash accruals to total debt ratio for FY 2019 was weak at 0.02 percent.

Acuite believes that the financial risk profile of the firm is likely to remain modest over the medium term, on account of high gearing and modest debt protection metrics.

• **Competitive and fragmented industry**

The firm operates in a highly competitive and fragmented industry characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm.

Rating Sensitivities:

- Substantial improvement in EBITDA margins.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

Not Applicable

Liquidity position: Average

The firm has average liquidity marked by modest net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.30 crore for FY2019, with debt repayment obligations of Rs.0.04 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.0.34 crore to Rs.0.77 crore during 2020-22 against debt repayment obligations of Rs. 0.05 crore in the same period. The firm's working capital operations are efficient, marked by GCA of 55 days for FY2019. The firm maintains cash and bank balances of Rs.0.38 crore as on 31 March, 2019. The current ratio stood at 1.89 times as on 31 March 2019. Acuite believes that the liquidity of the firm is likely to remain average over the medium term on account of modest cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite believes that the firm will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 201.63 | 154.25 | 179.79 |
| EBITDA | Rs. Cr. | 0.83 | 1.58 | 1.07 |
| PAT | Rs. Cr. | 0.17 | 0.17 | 0.20 |
| EBITDA Margin | (%) | 0.41 | 1.02 | 0.60 |
| PAT Margin | (%) | 0.08 | 0.11 | 0.11 |
| ROCE | (%) | 5.74 | 5.37 | 4.90 |
| Total Debt/Tangible Net Worth | Times | 1.51 | 2.11 | 2.73 |
| PBDIT/Interest | Times | 1.21 | 1.23 | 1.44 |
| Total Debt/PBDIT | Times | 8.99 | 12.80 | 16.20 |
| Gross Current Assets (Days) | Days | 55 | 87 | 80 |

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

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-------------|---------------------------------|------------|-----------------|---------------------------------|
| 25-Sep-2018 | Cash Credit | Long term | 10.00 | ACUITE B+ / Stable (Reaffirmed) |
| | Cash Credit | Long term | 2.50 | ACUITE B+ / Stable (Reaffirmed) |
| | Packing Credit | Short term | 3.50 | ACUITE A4 (Reaffirmed) |
| 17-Aug-2017 | Cash Credit | Long term | 10.00 | ACUITE B+ / Stable (Reaffirmed) |
| | Cash Credit | Long term | 2.50 | ACUITE B+ / Stable (Reaffirmed) |
| | Packing Credit | Short term | 3.50 | ACUITE A4 (Reaffirmed) |
| 28-Apr-2016 | Cash Credit | Long term | 10.00 | ACUITE B+ / Stable (Upgraded) |
| | Cash Credit | Long term | 2.50 | ACUITE B+ / Stable (Upgraded) |
| | Packing Credit | Short term | 3.50 | ACUITE A4 (Reaffirmed) |

*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 | 2.50 | ACUITE B+/ Stable (Reaffirmed) |
| Warehouse Receipts | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE B+/ Stable (Reaffirmed) |
| Packing Credit | Not Applicable | Not Applicable | Not Applicable | 3.50 | ACUITE A4 (Reaffirmed) |

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About Acuite Ratings & Research:

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