



Rating Rationale

Kunal Exports & Infrastructure

23 Dec 2019

Brickwork Ratings revises its long term and short term ratings for the bank loan facilities amounting to Rs. 44 Crs of Shree Krishna Enterprises or ‘the Firm’.

Particulars:

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous [^] (Dec, 2018)	Present
Fund based Cash Credit	1.00	1.00	Long Term	BWR BB+/Stable	BWR BB/Stable (Downgrade)
Non Fund Based LC/FLC	43.00	43.00	Short Term	BWR A4+	BWR A4 (Downgrade)
Total	44.00	44.00	INR Forty Four Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

[^]BWR issued Rating Not Reviewed advisory on 09 Dec 2019 for the previous ratings.

#Complete details of Bank facilities is provided in Annexure-I

RATING ACTION

The revision in the rating factors in the significant decline in its scale of operations reflected at turnover levels achieved during FY19 and low profitability margins reported over the past three years. The firm’s trade payables remained high against its current assets (excluding short term loans extended to its group entities) available as on 31 March 2019 . Other risk factors related to risk exposure arising from volatility in commodity prices and regulatory changes besides highly competitive industry due to fragmentation, remains the same. BWR also noted that the firm extended a significant amount of loans to its various its group entities which is more than its outstanding capital position. Further, it is not reporting any revenues from these investments.

However, the ratings draw comfort from the comfortable gearing profile backed by low secured debt borrowings, promoters experience with established track record in this sector and comfort drawn from its group support in terms of operational and financial synergies, besides satisfactory feedback from its existing lender.



KEY RATING DRIVERS

Credit Risks:

Decline in turnover levels and low profitability margins reported: Turnover of the firm declined significantly from Rs. 128.06 Cr in FY18 to Rs. 58.89 Cr in FY19. Its profitability margins also remained low at less than 0.27% during FY19 as its turnover generated entirely through a high-seas trading activity.

Loans extended to its group entities: The firm has substantial exposure to its group entities as it has reported short-term loans & advances of Rs. 30.66 Cr during FY19. The said advances are more than the firm's actual capital position from which is not generating any revenues. BWR notes that there is a cash flow fungibility among the group entities as they extend short term loans to each other as per the liquidity requirements. This leads to a high TOL/TNW ratio for some entities.

Exposure to risks arising from price fluctuations, forex risks, counterparty risks & regulatory changes: In case of high-seas or merchant trade, there is a time gap between imports and actual sales made which may lead to significant price fluctuation problems. The firm is also exposed to FX fluctuation risks, as it makes purchases in USD and sells it at INR prices in the domestic market. It has reported FX loss of Rs. 1.15 Cr in FY19 as against FX loss of Rs. 0.88 Cr in FY18. Further, counterparty risk can also arise as the firm deals with some customers located at Kandla port. In the event of these customers failing to take delivery or delay in making payments, the Group's receivable levels may increase significantly over the medium term.

Credit Strengths:

Experienced promoters with established track record: The GG Group is promoted by Mr. Gurdas Garg and his son, Mr. Kunal Garg having over 15 years of experience in this trade. Both promoters look after the overall routine business affairs of the firm. Thus, the group benefits from the long term experience of the promoters in this sector.

Adequate gearing profile: The firm's gearing ratio remains adequate at 0.12x with low secured debt borrowings availed as on date. The firm had availed a cash credit limit of Rs. 1 Cr (sanctioned amount) as on date. Total capital of the firm remains moderate at Rs. 10.65 Cr as on 31.03.2019.

Group Support: The company is a part of the 'GG Group' based in Bathinda which provides business synergies and financial support. The group comprises businesses related to trading of edible and non-edible oils.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has applied its rating methodology on a group approach basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The financial performance of the group entities have been consolidated to arrive at the rating on account of having common business synergies and cash flow fungibility. Details of the Companies/Firms considered for arriving at the rating are given in Annexure II.



RATING SENSITIVITIES:

Positive: The rating may favor an upgrade in case the firm is able to increase its turnover levels significantly, improve its profitability margins to at least 1%, bring down its TOL/Total Capital to at least 1x, and recover its advances extended to its group entities.

Negative: BWR may revise the rating downwards, if the firm is unable to achieve the aforesaid financial numbers.

LIQUIDITY POSITION:

Liquidity position of the firm is below average as it reported high trade payables against the current assets (excluding short-term loans & advances) available coupled with significant amount of funds being extended to its various group entities during FY19. The unencumbered cash & cash equivalents remain low at Rs. 0.06 Cr (P.Y. Rs. 0.18 Cr) during FY19. The firm avails mainly LC's (Non Fund Based limits) for its operations with usance period of 180 days. The ability of the firm to recover its pending debtors and advances extended to its group entities and make funds available as and when FLC's gets due remain the key rating sensitivity.

ABOUT THE FIRM

Kunal Exports & Infrastructure is a part of GG Group, based out in Bathinda, Punjab. The firm is promoted by Mr. Gurdas Garg and his son Mr. Kunal Garg, who looks after the overall operations of the firm. The firm is engaged in the trading of non-edible and edible oil such as crude palm oil, soya bean oil, etc. by importing the same from overseas markets and selling in the domestic market on a high seas trading basis.

ABOUT THE GROUP

GG Group comprises 16 entities which are engaged in the same business activity of importing edible and non-edible oil and selling in the domestic market on a high seas trade basis. The said companies import goods via opening site LC's or usance LC and sell it to the common set of customers which are mainly located near the port. The GG Group has also acquired storage houses of 60000 MT capacity in Kandla, Gujarat from where it carries out its trading activities.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Operating Revenue	Rs. Crores	128.06	58.89
EBITDA	Rs. Crores	1.37	3.21
PAT	Rs. Crores	0.24	0.16
Total Capital	Rs. Crores	10.49	10.65

TOL/Total Capital	Times	3.64	3.57
ISCR	Times	5.94	1.71

Rating History for the last three years

S.No	Facility	Current Rating			Rating History		
		Type	Amt (₹ Crs)	Rating	09 Dec 2019	08 Dec 2018	15 June 2017
1	Fund Based Cash Credit	Long Term	1.00	BWR BB/Stable (Downgrade)	Rating Not Reviewed Advisory	BWR BB+/Stable (Reaffirmed)	BWR BB+/Stable
2	Non Fund Based ILC/FLC	Short Term	43.00	BWR A4 (Downgrade)	Rating Not Reviewed Advisory	BWR A4+ (Reaffirmed)	BWR A4+
Total			44.00	₹ Forty Four Crores Only			

Status of non-cooperation with previous CRA - N.A.
Any other information: Nil

#Annexure I

Details of Bank Facilities rated by BWR

S No.	Name of the Bank	Type of Facility	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	Punjab National Bank	Cash Credit	1.00	-	1.00
		ILC/FLC	-	43.00	44.00
Total			1.00	43.00	44.00

Annexure II

S.No.	Companies/Firms under G.G. Group
1	G.K. Proteins Pvt. Ltd
2	Gurdas Agro Pvt. Ltd

3	G.G. Continental Trades Pvt. Ltd
4	G.K. Continental Trades Pvt. Ltd
5	G.G. Oils & Fats Pvt. Ltd
6	Kunal Exports & Infrastructure
7	Gurdas Exports
8	Vinayak Agro
9	Salasar Foods
10	GK Exim
11	J.J. Exports
12	Neeharika Oils
13	SSD Overseas
14	Shree Krishna Enterprises
15	Shree Balaji Exports
16	Sidhivinayak Exports

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entities](#)
- [Short Term Debt](#)
- [Ratings based on Group Support](#)

Analytical Contacts	Investor and Media Relations
<p>Peeush Middha Assistant Manager - Ratings +91 172 5032295 peeush.m@brickworkratings.com</p> <p>Ashwini Mital Director - Ratings +91 172 5032295 ashwini.m@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications M : +91 84339 94686 B : +91 22 6745 6666 liena.t@brickworkratings.com</p>



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