RATING RATIONALE **2 Sept 2020**

Sree Krishna Trading Corporation

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 12.56 Crores of Sree Krishna Trading Corporation (or 'the Firm')

Particulars:

Facility**	Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (May 2019)	Present
Fund Based	12.56	12.56	Long Term	BWR B+/ Stable	BWR B+/Stable (Reaffirmed)
Total	12.56	12.56	Rupees Twelve Crores and Fifty Six Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities is provided in Annexure-I

Rating Action/Outlook

The rating reaffirmation has factored the experience of the proprietor, established relationship with customers and suppliers and substantial revenue growth in FY19 and FY20 as against FY18. The rating, however, is constrained by the firm's thin profit margins owing to the trading nature of operation, weak financial profile, stretched working capital position and proprietorship constitution of the firm.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that the financial risk profile of Sree Krishna Trading Corporation will be maintained over the medium term. The rating outlook may be revised to 'Positive' in case the firm shows substantial increase in revenue and improvement in profit margins with overall improvement in its financial profile. The rating outlook may be revised to 'Negative' if there is decline in revenues and profit margin or any deterioration in the liquidity position of the firm.

Key Rating Drivers

BWR has principally relied upon the audited financial results up to FY19, provisional FY20 figures, projections of FY21 & FY22 of Sree Krishna Trading Corporation, publicly available information and information/clarification provided by the firm's management.

Credit Strengths:

- **Promoter's experience:** The proprietor of the firm, Mr. Namburu Narendra, has more than a decade of experience in trading of food grains and pulses which has resulted in established relationships with customers and suppliers.

- **Revenue growth:** SKTC recorded revenue of Rs. 72.87 Cr and Rs. 47.14 Cr, respectively in FY19 and FY20 (prov.) as against Rs. 9.15 Cr in FY18. The substantial increase in revenue was on account of increase in trading of agro products and pulses. In FY17 and FY18, the firm derived the revenues only from the sale of Maize.

Credit Risks:

- **Thin profit margins:** The operating profit margins of the firm were 2.92% and 2.96% and net profit margins were 1.20% and 1.21%, respectively in FY19 and FY20. Profit margins were thin due to the trading nature of operation and low bargaining power with the customers on account of intense competition.

- **Weak financial profile:** The financial profile of the firm was weak marked by high debt equity and low net worth of 4.02 times and Rs. 2.15 Cr, respectively as on 31 March 2020. Also, ISCR and Net cash accrual to total debt were of 1.71 times and 7 percent, respectively in FY20.

- **Stretched working capital position:** Due to high receivable days of 95 days, the working capital position of the firm stands stretched as reflected by its cash conversion cycle of 112 days on 31 March 2020. Further, its average working capital utilization was high at ~100% in the last six months ending July 2020.

- **Constitution of the firm:** Being a proprietorship firm, it is exposed to risks of continuity and withdrawal of capital.

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has considered the standalone performance of Sree Krishna Trading Corporation and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

Rating Sensitivities

Positive: The rating may be positively revised if the firm retains its scale of operations and improves its profit margins and capital structure.
Negative: The rating would be adversely affected if the revenues and profit margins declines and also if there is any deterioration in the liquidity position, and any other factors validating for downgrade.

Liquidity Position

The firm's working capital position was stretched as reflected from its high cash conversion cycle of 112 days due to high receivable days of 95 days on 31 March 2020. Also, its average working capital utilization was high at ~100% in the last six months ending July 2020. Net cash accrual declined to Rs.0.58 Cr in FY20 from Rs.0.88 Cr in FY19 due to decline in scale of operation, despite substantial decline in finance cost. Current ratio was at 1.89 times and cash and cash equivalent stood low at Rs0.14 Cr as on 31 March 2020.

Profile of the Firm

Established in 2008 at Tenali, Andhra Pradesh, Shree Krishna Trading Corporation (SKTC) is engaged in trading of food grains and pulses such as Bengal Gram, Black Gram, Chana Dall, Orid Dall and Maize. It is a proprietorship concern which is promoted by Mr. Namburu Narendra, who has ~14 years experience in the agro-products trading business. SKTC procures food grains and pulses from framers, traders and intermediaries and mainly caters to the wholesale dealers. Mr. Namburu Narendra is one of the active partners in Mahalakshmi Rice Traders, Syamala Dall Mill, Venkata Ramana Rice Mill and Krishna Industries.

Key Financial Indicators (in Rs Crs)

Key Parameters	**Units**	**FY18**	**FY19**
Result Type		**Audited**	**Audited**
Operating Revenue	Rs Crs	9.15	72.87
EBITDA	Rs Crs	1.59	2.13
PAT	Rs Crs	0.11	0.87
Tangible Net worth	Rs Crs	3.05	1.33
Total Debt/Tangible Net worth	Times	4.85	7.91
Current Ratio	Times	4.78	1.59

Key Covenants Of The Instrument/Facility Rated: None
Non-cooperation With Previous Rating Agency: None

Rating History for the Previous Three Years [including withdrawal and suspended]

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	07.05.2019	22.05.2018	17.3.2017
Fund Based	Long Term	12.56	**BWR B+/Stable (Reaffirmed)**	BWR B+/Stable	BWR B/Stable	BWR B/Stable
Total		12.56	Rupees Twelve Crores and Fifty Six Lakhs Only			

Note: The rating was moven under 'Rating not Reviewed' in May 2020.

Complexity Levels of the Instruments
For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Services Sector**

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Sree Krishna Trading Corporation

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1.	Indian Bank	Open Cash Credit	7.50	-	7.50
2.		Term Loan	0.04	-	00.04
3.		Proposed Cash Credit	5.02	-	5.02
TOTAL					**12.56**

Total Twelve Crores and Fifty Six Lakhs Only

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