Kamatchi and Co

January 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00 (Reduced from 15.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5.50	CARE A3 (A Three)	Assigned
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**15.50** **(Rs. Fifteen Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kamatchi and Co (KAC) continue to derive strength from the experienced promoters, established relationship with customers and suppliers with a diversified procurement network, comfortable capital structure and adequate liquidity position. The ratings, however, continue to be constrained by vulnerability to raw material price volatility, client concentration risk, capital withdrawal risk inherent to the constitution of the firms and presence in a competitive and fragmented industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Diversification of customer profile with reduction in client concentration below 50%
- Sustainable improvement in operating margins above the range of 6%-7%

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any debt-funded capex or withdrawal of capital leading to deterioration in overall gearing above 1.5x
- Deterioration in liquidity indicators or elongation of working capital cycle

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters

Mr G. Chandran, the promoter of the Best Group, has been involved in the trading business for more than a decade. The group, in the initial years of its operations, had been involved in both wholesale as well as retail distribution, however, has shifted entirely towards wholesale supply in recent times. The group's operations are entirely overseen by the promoter family, with Mr Chandran being involved in the strategic decisions ably supported by his son, Mr Vignesh Chandran, who is the Chief Executive Officer of the group.

Established relationship with customers and suppliers with a diversified procurement network

The group has established a robust distribution network over the years and supplies various types of products like yellow lentils, sugar, palm oil etc among others. The major clientele includes Christy group of Companies (rated 'CARE BBB; Stable/ CARE A3') who are one of the established suppliers of food & food products to various schemes of the TN Government and constitutes around 30-40% of the group's sales is made to the Christy Group of Companies and Tamil Nadu Civil Supply Corporation (TNCSC) which is a public sector under Tamil Nadu state Government to supply for Ration shops. The group has also been supplying to a few other clients in Tamil Nadu, however on a relatively smaller scale.

Consistent operational performance

The group has reported sharp increase in its scale of operations measured by its total operating income (TOI) of Rs.704.14 crore vis-à-vis Rs.554.81 crore in FY20 (refers to the period April 1 to March 31) witnessing 37% growth primarily propelled by increase in sales of commodities, viz, palm oil and yellow lentil followed by other pulses in small scale. The group recorded a total operating income of Rs.458.10 crore in 7MFY22 and has an order book of Rs.70-80 crore to be executed within the next one month.

Comfortable capital structure and debt coverage indicators

The capital structure of the group, marked by overall gearing, continued to be healthy at 0.72x as on March 31, 2021. The debt coverage indicators remained satisfactory with total debt (TD)/gross cash accruals (GCA) at 3.22x as on March 31, 2021, and an interest coverage of 13.05x during FY21.

Key Rating Weaknesses

Vulnerability of margins to volatile raw material prices & foreign currency fluctuations

The PBILDT margins of the group have been volatile in the range of 3%-5% in the past three years. The profit margins are greatly dependant on market prices of lentils, palm oil, which are highly volatile. Furthermore, the prices of the end products

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

are more or less fixed on the basis of the tender process of TNCSC. Any adverse volatility in the RM prices could hit the margins of the group, as they cannot pass on the increase in prices in entirety to its customers. Price fluctuation also depends upon the monsoon every year and erratic monsoon would result in increase in RM price and affect its profitability. However, this is, to an extent, off-set by way of sale of different variations of the products.

Client concentration risk with presence in a competitive & fragmented industry
A major part of the supply of the BEST group is to the Christy group of companies, which accounts for more than 30%-40% of the total sales. This exposes BEST to client concentration risk. Although the client concentration risk has been reducing gradually in the last two years with the group adding some new clientele in its portfolio, however, the exposure to top clients remains high. Furthermore, the food processing industry is characterized by presence of large number of small players competing with few organized players. The ability of the group to continue getting repeat orders amidst the growing competition would be key to its prospects.

Capital withdrawal risk inherent to constitution of the firms
The firms being partnership/proprietorship concerns in nature, the group is exposed to inherent risk of capital withdrawal by the partners/proprietor due to personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firm business has restricted avenues to raise capital, which could prove a hindrance to its growth.

Liquidity: Adequate
The group has adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations of Rs. 0.46 crore in FY22 and moderate cash balance of Rs.0.19 crore as on March 31, 2021. Operating cycle stood comfortable at 29 days in FY21. Further average utilization of its working capital limits of BPF stood low at 39% during the last 12 months ended November, 2021. The current ratio and quick ratio stood comfortable at 1.48 times and 1.30 times respectively as on March 31, 2021 (vis-à-vis 1.51 times and 1.16 times respectively as on March 31, 2020).

Analytical approach: Combined. CARE Ratings Limited has taken a combined view of all the three entities viz Best Dhall Mill, Kamatchi And Co and Best Pulses and Foods, herein after referred to as "Best Group" as all the entities are managed by the same promoter family and are engaged in similar business of wholesale trading of pulses, sugar and palm oil with cash flow fungibility in between them.

Applicable criteria
Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Wholesale Trading
Factoring linkages Parent sub JV group
Policy on Withdrawal of ratings

About the Firm
Kamatchi and Co (KAC) is a sole proprietorship firm incorporated in March 18, 2002 by Mr G. Chandran. The entity is engaged in the processing and trading of pulses, sugar and palm oil and day to day operations are overseen by Mr Chandran supported by his son, Mr Vignesh. KAC has a processing capacity of 35 tonnes of pulses per day.

Standalone financials of KAC

Brief Financials (Rs. crore)	31-03-2019 (A)	31-03-2020 (A)	31-03-2021 (P)	*7MFY22 (UA)
Total operating income	158.96	161.17	164.31	27.41
PBILDT	6.27	6.97	5.90	NA
PAT	4.93	3.50	2.70	NA
Overall gearing (times)	2.10	0.55	0.68	NA
Interest coverage (times)	4.95	2.07	6.47	NA

A: Audited – P; Provisional – UA; Unaudited – NA; Not available
Status of non-cooperation with previous CRA: Nil

Any other information: NIL

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB-; Stable
Non-fund-based - ST-Forward Contract		-	-	-	0.00	Withdrawn
Fund-based - ST-Bank Overdraft		-	-	-	5.50	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (15-Feb-21)	1)CARE BB+; Stable (31-Jan-20)	-
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (15-Feb-21)	1)CARE A4+ (31-Jan-20)	-
3	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)CARE A3 (15-Feb-21)	-	-
4	Fund-based - ST-Bank Overdraft	ST	5.50	CARE A3				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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