# Kerala Agro Machinery Corporation Limited

January 17, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 40.00 | CARE BBB; Stable | Assigned |
| Short-term bank facilities | 2.00 | CARE A3+ | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of Kerala Agro Machinery Corporation Limited (KAMCO) draw comfort from experienced management with Government of Kerala undertaking and long track record of operations, established dealer network, comfortable capital structure and satisfactory debt coverage indicators. The ratings are, however, constrained by thin profitability margin, elongated collection period and competition from various unorganised and organised players.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Improvement in the scale of operations as marked by the total operating income (TOI) of above ₹300 crore with PBILDT margin of 6% on a sustained basis
- Improvement in the collection period of the company below 90 days.

**Negative factors**

- Decline in the scale of operations below ₹150 crore and decline in the PBILDT margin below 2%, respectively, on a sustained basis.
- Any large debt-funded capex leading to moderation in the overall gearing above 0.5x.

## Analytical approach: Standalone

## Key strengths

**Experienced management team**

KAMCO is 100% owned by Government of Kerala (GoK) and has been in the business of Agriculture Machinery for over four decades. Suresh Raj K.P is the chairman of KAMCO and has more than a decade of experience in the manufacturing of agricultural machinery. The management also consists of experienced directors appointed by the GoK.

**Long track record of operations in the field of agricultural equipment manufacturing**

KAMCO has over four decades of experience in manufacturing agricultural machinery and equipment. KAMCO has been exhibiting steady growth in the revenue from ₹156 crore in FY18 (refers to the period April 1 to March 31) to ₹220 crore in FY22 with compounded annual growth rate (CAGR) of 7.1%. KAMCO currently has six manufacturing units with installed capacity for tiller of 12,500 units, reapers with 3600 units and brush cutter with 1500 unit per year. KAMCO has established relationship with small and medium scale industries, which supply raw materials for critical components. The capacity utilisation of machinery stood in the range of 90%-100% for past three years ended FY22.

**Comfortable capital structure and debt coverage metrics**

The capital structure of the company is comfortable with overall gearing of 0.15x as on March 31, 2022 (PY: Nil). KAMCO was debt free since inception till the end of FY21. The company started to avail working capital from bank from FY22 and it does not have any long-term borrowings as on date. The debt coverage indicators stood comfortable with interest coverage of 32.89x in FY22. The company also receives periodic support from GoK in the form of grants, which further solidifies their capital.

**Well-established dealer network**

KAMCO has market presence throughout the country with the help of around 80 dealers. KAMCO generates majority of its revenue from north and north-eastern states like Assam, West Bengal, Tripura, etc., which was well supported by their dealers.

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

KAMCO also provides its products to the Government agencies present around the country. The top five customers of KAMCO contributed around 22% in FY22 (PY: 32%).

## Key weaknesses

**Thin profitability margins susceptible to overhead costs and lower price**

The PBILDT margins of KAMCO are thin due to the assembling nature of operations and are also constrained by comparatively lower market price of the products amidst fixed overhead costs. KAMCO is a GoK-owned company focused on to aid the farmers by providing agricultural equipment and related machineries in low price compared to other industry players. The PBILDT margins for past five years ended FY22 stood in the range of 0.60%-2.90%.

**Elongated working capital cycle susceptible to subsidy-based collection method**

The working capital cycle of KAMCO is elongated with high level of receivables. The receivables are higher on account of delayed payment by dealers who in turn depends on the subsidies from the respective Governments. The dealers sell the products of KAMCO under subsidised price for which they will be compensated by the Government. This subsidy collection was further impacted during the period of COVID-19 thus increasing the collection period from 137 days in FY19 to 168 days in FY22. The receivables more than 6 months also increased from ₹17.15 crore (18% of total receivables) as on March 31, 2021 to ₹40.75 crore (37% of the total receivables) as on March 31, 2022.

**Intense competition from various organised and unorganised players and seasonal nature of business**

KAMCO operates in highly competitive environment consisting of many unorganised players, on account of low entry barriers and low capital requirement to set up operations of manufacturing agricultural implements. Furthermore, the company has competition from other established players as well. The company's major sales take place, mainly in the second half of the financial year when crop harvesting is done in north and central region, which forms majority of its sales thereby making its business operations seasonal in nature. Furthermore, the agro-based industry can be adversely affected by climatic conditions. The monsoon has a huge bearing on crop availability, which determines the demand for the products of KAMCO.

**Industry outlook and prospects**

The increase in mechanisation of farming activities across the agricultural value chain, such as ploughing, harrowing, planting, harvesting, and tilling are all expected to boost the demand for agriculture equipment, which in turn drives the growth of the global agriculture equipment industry. Moreover, the implementation of precision farming in the near future will enable increased sustainability in farming activities, thereby increasing profitability, and protecting land resources. This is bound to bring in improved agricultural production essentially required to feed the growing global population and increased food cultivation. CARE Ratings expects this upsurge to bolster the demand for agriculture equipment and the growth in the agriculture equipment market

## Liquidity: Adequate

The liquidity position of the company remained adequate with Nil long-term debt obligations. The company has free cash balance of ₹18.74 crore as on March 31, 2022 against ₹23.27 crore on March 31, 2021. KAMCO has working capital limits of ₹40 crore and the average utilisation of its working capital limits stood around 93.50% for the past 12 month period ending November 2022. The current ratio stood comfortable at 2.60x (PY: 2.84x) as on March 31, 2022.

## 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

## About the company

Kerala Agro Machinery Corporation Limited (KAMCO) was established in the year 1973 as a wholly-owned subsidiary of Kerala Agro Industries Corporation Ltd. (KAIC), Trivandrum, a central government and state government joint venture, which promotes agro-based industries in Kerala by manufacturing farm equipment, machinery and implements required for mechanised farming. Subsequently, KAMCO became a separate Government of Kerala (GoK) undertaking in 1986. At present, 100% stake of the company is held by GoK. KAMCO is involved in the manufacture of agricultural machinery, specifically power tillers and diesel engines. The head office and first manufacturing unit of KAMCO is located at Athani in Ernakulam District of Kerala. Currently, KAMCO has six manufacturing units in Kerala.

| Brief Standalone Financials (₹ crore) | FY21(A) | FY22 (Prov) | H1FY23(Prov) |
|---|---|---|---|
| Total operating income | 197.82 | 220.36 | 45.00 |
| PBILDT | 1.16 | 3.62 | NA |
| PAT | 0.49 | 1.74 | NA |
| Overall gearing (times) | 0.00 | 0.15 | NA |
| Interest coverage (times) | 57.92 | 32.89 | NA |

A: Audited; Prov: Provisional ; NA: Not available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

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

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 40.00 | CARE BBB; Stable |
| Fund-based - ST-Working capital limits | | - | - | - | 2.00 | CARE A3+ |

## Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Cash credit | LT | 40.00 | CARE BBB; Stable | | | | |
| 2 | Fund-based - ST-Working capital limits | ST | 2.00 | CARE A3+ | | | | |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities :** Not Applicable

## Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash credit | Simple |

| Sr. No. | Name of the Instrument | Complexity Level |
| --- | --- | --- |
| 2 | Fund-based - ST-Working capital limits | Simple |

**Annexure-5: Lender details**

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

**Note on the complexity levels of the rated instruments:** CARE Ratings 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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