Kabra Commercial Limited

August 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	0.75	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	19.15	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	**19.90 (Rs. Nineteen Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Kabra Commercial Limited (KCL) takes-into account sequential moderation in performance of the company over the last two years marked by declining turnover and operating profit levels. The ratings continue to remain constrained by its small scale of operations, moderate debt coverage indicators and intense competition due to low entry barriers. However, the ratings continue to derive strength from extensive industry experience of the promoters and established relationship with reputed clients, satisfactory profitability margins and comfortable capital structure

Rating Sensitivities

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

- Increase in scale of operation (turnover > Rs.20 crore) while sustaining its current operating margin on a sustained basis.

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

- Any further decline in scale of operation along with deterioration in operating margin reaching < 10% on a sustained basis.
- Sharp decline in investments, mainly in Fixed deposits/Mutual funds leading to increase in net debt levels.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations: The total operating income has witnessed de-growth by 20.03% in FY21 over FY20 on the back of revenue hit in Q1FY21 due to lockdown imposed owing to COVID pandemic. (the company has booked a revenue of Rs.1.48 crore in Q1FY21 as against 2.85 crore of revenue in Q1FY20). Moreover, the overall scale of operations of the company have been sequentially declining over the last two years and remained small marked by total operating income of Rs.9.68 crore in FY21 as against Rs.12.10 crore in FY20 and Rs.21.26 crore in FY19. In Q1FY22, the company has reported a total operating income of Rs.3.50 crore with a PAT of Rs.0.25 crore. The small scale restricts the financial flexibility of the company in times of stress and it suffers on account of lack of economies of scale.

Deterioration in operating performance during FY21

The company provides coal liaising and supervision services along with transportation services through railway. This apart it also does coal trading as per the opportunity available and its economic viability. The TOI has witnessed de-growth during FY20 mainly due to nil revenue booked from trading of coal. Further due to lower revenue booked during Q1FY21 as against Q1FY20 due to lockdown imposed in the country on the back of COVID pandemic; the TOI declined by 20.03% in FY21. The PBILDT levels also has declined to Rs.1.37 crore in FY21 as against Rs.2.00 crore in FY20 and Rs.2.38 crore in FY19 in line with the total operating income.

Moderate debt coverage indicators: The debt coverage indicators remained moderate marked by interest coverage ratio of 2.11x (2.65x in FY20) and total debt to GCA of 14.64x (10.63x in FY20) in FY21. Deterioration in interest coverage was due to low PBILDT levels on the back of degrowth in TOI during FY21. Further, the total debt to GCA also deteriorated in FY21 due to lower generation of cash accruals along with higher utilization of fund-based limits as on account closing date.

Intense competition due to low entry barriers: The company is into coal handling and related services apart from coal trading which is highly fragmented and competitive in nature due to low entry barriers. Further all the entities in the industry, trading the same products with a little product differentiation resulting into price driven sales. Intense competition restricts the pricing flexibility of the company in the bulk customer segment hence the players in the industry do not have pricing power and are exposed to competition induced pressures on profitability.

Key Rating Strengths

Extensive industry experience of the promoters *and established relationship with reputed clients*: The company is into coal handling and related services apart from coal trading business since 1982 and accordingly has long operational track record. Furthermore, Mr. Rajesh Kumar Kabra, having around three decades of experience in this line of business, looks after the day to day operations of the company. He is supported by other promoter Mr. Ramawtar Kabra, having around five decades of experience in this line of business and other non-executive and independent directors along with a team of experienced professional. By virtue of its long presence and satisfactory track record in the industry, it has been able to cater to reputed clients in the sector like paper, cement, power, steel and amongst others.

Satisfactory profitability margins: The profit margins remained satisfactory marked by operating margin of 14.12% (FY20:16.56%) and PAT margin of 6.23% (FY20:6.67%) in FY21 mainly owing to service nature of business. The operating margin witnessed improvement in FY20 over FY19 on the back of nil revenue earned from trading operations where margin remain low. However, the margins moderated in FY21 on account of decline in scale leading to lower fixed cost absorption. PAT margins also moved in line with the PBILDT margins.

Comfortable capital structure: The debt profile of the company only constitutes working capital borrowings. Further majority of such borrowings are backed by fixed deposits, thereby leading to much lower net debt as against gross debt levels. The capital structure of the company has improved on account of accumulation of surplus into reserves and the same remained comfortable marked by overall gearing ratio of 0.91x as on March 31, 2021.

Industry Outlook

Consumption of coal remains strong across industries due to its low price, which is also leading to strong sales of coal handling systems, globally. These systems are an integral part of a plant's material flow and coal quality management. Coal handling system are largely used across industries, especially at coal mining plants, thermal power stations, and ports. Even though developed regions of the world are pushing for use of renewable energy, overall, coal mining across the world, is increasing, consequently leading to more demand for efficient coal handling systems.

In the past few months of the COVID-19 pandemic, due to trade and other restrictions, industrial activities suffered a blow, which reduced demand for coal handling services. However, as restrictions have been eased, demand is expected to pick up and is expected to getting back to its original growth trajectory.

Liquidity: Adequate

The company has adequate liquidity position with gross cash accruals of Rs.0.61 crore generated in FY21 as against nil scheduled repayment obligation. Further it has investments of Rs.2.17 crore in quoted/ unquoted shares and mutual funds. as on March 31, 2021. The average fund-based utilisation of the company remained at around 85% during the last 12 months ended June'21. As per the discussion with the banker, the company has not availed any covid moratorium/deferment on interest and also has not availed any loan under Guaranteed Emergency Credit line. Moreover, cash flow from operations was positive in FY21.

Analytical approach: Standalone

Applicable Criteria

Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition

About the Company

Incorporated in 1982, Kabra Commercial Limited (KCL), is promoted by Mr. Rajesh Kumar Kabra. KCL is listed on the Bombay Stock Exchange and Calcutta Stock Exchange. KCL provides coal handling and other related services including coal liaising services, logistics of coal (through railway), and quality checks for domestic and imported coal. This apart, it also engaged in share trading activities. KCL provides its services to a diversified client base in Cement, Power, Steel and other industries.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	12.10	9.68
PBILDT	2.00	1.37
PAT	0.81	0.60
Overall gearing (times)	0.93	0.91
Interest coverage (times)	2.65	2.11

A: Audited

In Q1FY22, the company has reported a total operating income of Rs.3.50 crore with a PAT of Rs.0.25 crore.

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	0.75	CARE BB-; Stable
Non-fund-based - ST-ILC/FLC	-	-	-	19.15	CARE A4

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-Bank Overdraft	LT	0.75	CARE BB-; Stable	-	1)CARE BB; Stable (07-Aug-20)	1)CARE BB; Stable (03-Sep-19)	-
2.	Non-fund-based - ST-ILC/FLC	ST	19.15	CARE A4	-	1)CARE A4+ (07-Aug-20)	1)CARE A4+ (03-Sep-19)	-

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 the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Non-fund-based - ST-ILC/FLC	Simple

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Anil More
Group Head Contact no.- 033-4018-1623
Group Head Email ID- anil.more@careratings.com

Relationship Contact
Name: Anwesa Mukhopadhyay
Contact no.: +91-9830131823
Email ID: anwesa.mukhopadhyay@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**