Malkit Agro Tech Private Limited

January 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	13.91	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Malkit Agro Tech Private Limited (MPL) are constrained due to weak financial risk profile, seasonal nature of operations coupled with Highly competitive and fragmented nature of industry with lower repetition of orders from existing customer and susceptibility of margins to raw material price fluctuations. However, rating derive strength from experienced and resourceful promoters with long track record of operations along with comfortable capital structure despite of smaller scale of operations.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Scaling up of operations, with operating income growing to more than Rs. 100 crores coupled PBILDT margin around 8% on sustained basis.
- Reduction in current assets days (inventory days and collection period) below 120 days on sustained basis.

Negative factors

- Decline in PBILDT margin below 5% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio of above 1.00x.

Analytical approach: Standalone

Key weaknesses

Weak financial risk profile

Financial risk profile of the company remains week on account of small scale of operations as company has booked revenue from operations of Rs 65.36 crores during FY22 (Audited, refers to the period of April 01 to March 31) as compared to Rs. 179.46 crores during FY21 (Audited, refers to the period of April 01 to March 31) thereby generating cash accruals of Rs 2.57 crores as against Rs. 6.03 crores during FY21. Although, company's scale is improving slightly in current financial year as company has booked revenue of Rs. 53.23 crores during 9MFY23 (Provisional, refers to the period of April 01 to December 31). Company has performed exceptionally well during FY21 as company has received extensively high orders during the financial year since the demand of strew reapers has increased during COVID period as new players entered in the industry owing to less restrictions in agriculture related activities as compared to other industries during the COVID related restrictions whereas company's past trend suggest scale in line of revenue from operations of FY22. The profitability of the company also remains low and declining during the FY22 as marked by PBILDT margin and PAT margin of 6.97% (PY: 5.25%) and 1.73% (PY: 2.55%) respectively resulting in weak coverage indicator as reflected by interest coverage ratio of 2.45 times during FY22. Besides, overall operations of the company remain working capital intensive due to elongated average current assets days of 180 days during FY22 which is majorly due to elongated collection period of around 120 days as company has outstanding receivables of 23.64 crores (PY: Rs. 18.68 crores) as at March 31,2022, which includes slow moving receivables of around Rs. ~5 crores which is majorly funded through unsecured loans infused during the FY22 of Rs. 5.91 crores

Susceptibility of margins to raw material price fluctuations.

The operations of company are raw material intensive in nature with the material cost constituting ~84% on an average of the total income during the FY22. Major raw material of company includes iron, tyre & engine. The prices of the iron are fluctuating in nature and the price variation is at times not completely passed on to the customers due to competitive nature of the operations. Further, company procures engine from distributor of the reputed brands which is used in manufacturing of strew reaper, the raw material used in such engines is also commodity in nature and company has lower bargaining power with its suppliers in terms of pricing. This exposes the margins to any adverse movement in the raw material prices.

Seasonal nature of operations

Operations of company is highly seasonal as it directly aligned with crops harvesting seasons. Although, company has capacity of around 10 machineries per day having sales price of Rs. 20 to Rs 24 lacs per unit, however, due to seasonality of operations major revenue is booked in last two months and in second quarter of the financial year leaving its manufacturing unit underperformed during remaining tenor of financial year.

Highly competitive and fragmented nature of industry with lower repetition of orders from existing customer.

The agriculture equipment industry is highly seasonal and price competitive due to presence of multiple unorganised and few organised players in the industry. Further, company is engaged in manufacture of capital goods having lifespan of 2-3 years and supplies directly to farmers (which constituted almost 80% of revenue from operations) with lower repetitive orders from existing buyers. However, company has extensive team for marketing of their products which provides regular orders from new customers.

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

Key strengths

Experienced and resourceful promoters with long track record of operations.

MATPL is led by Mr. Malkit Singh & Mr Charan Singh who has almost three decades of experience in agriculture and agriculture related equipment's. He is ably supported by the other director who also have vast experience in their respective domains. Furthermore, the promoters of the company are highly resourceful and have extended continuous financial support to the company in the past by infusing additional funds in the form of unsecured loans to fund various business requirements. The unsecured loans from directors stood at Rs. 12.99 crores as on March 31, 2022 (PY: Rs. 7.08 crore), which is subordinated to bank loan.

Comfortable capital structure.

The capital structure of the company remains comfortable as reflected by long term debt to equity ratio and overall gearing ratio of 0.28x and 0.58x respectively at the end of FY22 as compared to 0.48x and 0.83x respectively at the end of FY21. The improvement of capital structure was majorly due to fresh unsecured loans of Rs. 5.91 crores infused during FY22 resulting in total outstanding of Rs. 12.99 crores as at March 31,2022, which is subordinated to bank loan.

Liquidity: Stretched

The company has a total debt repayment obligation of Rs. ~2.58 crores in FY23, which will be met through the operational cash flow. Company has earned Gross Cash accruals (GCA) of Rs. 2.57 crores during FY22 as against Rs. 6.03 crores during FY21 and expected to remain above Rs 3 crores for FY23. The current and quick ratio stood at a moderate level of 1.23x and 0.90x, as on March 31, 2022. Overall operating cycle of the company deteriorated and remains at 34 days during FY22 as compared to 8 days during FY21 majorly due to elongated average collection period. The average working capital utilization of the company also remains comparatively high around ~84% during the last 12 months ending December 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
Manufacturing Companies

About the company

Malkit Agro Tech Pvt. Ltd. (MATPL) was converted to private limited company in May 31,2012, which was earlier operating as partnership firm between Singh Brothers, Mr. Malkit Singh and Mr. Charan Singh for manufacturing and trading of self-propelled combine harvester i.e straw reaper. MATPL product portfolio includes tractor-driven combine harvester, straw reaper, rotavator, seeder and seed drill, which is manufactured from its unit located in Patiala District, Punjab.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	December 31,2022 (UA)
Total operating income	179.46	65.36	53.23
PBILDT	9.42	4.56	NA
PAT	4.58	1.13	NA
Overall gearing (times)	0.83	0.58	NA
Interest coverage (times)	4.66	2.45	NA

A: Audited; UA: Unaudited; 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		-	-	-	8.80	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	Dec 2025	5.11	CARE BB; Stable

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-Term Loan	LT	5.11	CARE BB; Stable				
2	Fund-based - LT-Cash Credit	LT	8.80	CARE BB; Stable				

*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
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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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About us:

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