

Kabra Commercial Limited (Revised)
August 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term bank facilities	0.75	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	19.15	CARE A4+ (A Four Plus)	Reaffirmed
Total	19.90 (Rupees Nineteen crore and Ninety lakh only)	-	

*Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of **Kabra Commercial Limited (KCL)** continue to remain constrained by its small scale of operations, moderate debt coverage indicators, stretched collection period and intense competition due to low entry barriers. However, the ratings continue to derive strength from extensive industry experience of the promoters with established relationship with reputed clients, satisfactory, though fluctuating profitability margins and comfortable capital structure.

Rating Sensitivities**Positive factors**

- Increase in scale of operation (turnover beyond Rs.25 crore) while sustaining its current operating margin on a sustained basis.
- Improvement in gross current assets days below 60 days and its reduced reliance on external borrowings to fund these requirements on a sustained basis.

Negatives factors

- Sizable decline in scale of operation (turnover below Rs.10 crore) on a sustained basis.
- Deterioration in gross current assets days beyond 120 days and its increased reliance on external borrowing for funding its working capital requirement on a sustained basis.

Detailed description of the key rating drivers**Key Rating Weaknesses**

Small scale of operations: The total operating income has witnessed erratic trend during last three years (FY18-FY20) and after significant increase in FY19 over FY18 on account of higher revenue from trading activities; the same has declined significantly during FY20 over FY19 due to nil turnover achieved from trading operations. Moreover, the overall scale of operations of the company remained small marked by total operating income of Rs.12.10 crore (FY19: Rs.21.26 crore), PAT of Rs.0.81 crore (FY19: Rs.0.25 crore), and cash accruals of Rs.0.80 crore (FY19: Rs.1.29 crore) in FY20. Furthermore, the tangible networth also remained moderate at Rs.9.64 crore as on March 31, 2020. 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.

There was restriction on the coal handling and other related services since the lockdown was imposed on 25th March, 2020 accordingly the company was not able to operate. However, the company has resumed its operation from June 01, 2020 and it is currently operating with 70% manpower. The company has booked revenue of Rs.1.07 crore during the period from April 01, 2020 to June 30, 2020.

Moderate debt coverage indicators: The debt coverage indicators also improved and the same remained moderate marked by interest coverage ratio of 2.65x (2.29x in FY19) and total debt to GCA of 10.63x (13.98x in FY19) in FY20. Improvement in interest coverage was on account of low interest expenses during FY20. Further, the total debt to GCA also improved in FY20 on account lower utilisation of working capital limit as on account closing date.

Stretched collection period: The average collection period deteriorated year on year and the same stood at 77 days in FY20 as against 40 days in FY19. The company allows credit of around two to three months to its customers due to its presence in an intensely competitive industry. Moreover, the company avails credit of around one to two month from its suppliers owing to its long presence in the industry which mitigates its working capital intensity to a certain extent. Moreover, the average utilization of fund based limit remained at around 83.30% during last 12 months ended in June 30, 2020. Moreover the current ratio remained above unity at 1.68x as on March 31, 2020.

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.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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 (aged about 50 years), 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 (aged about 69 years) 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. The company caters to diversified clients in the sector like cement, power, steel and other several industries. The major clients of the company includes reputed names like Emami Ltd. (rated CARE AA+; Negative/A1+), Maheshwari Logistics Ltd, Vidhi Enterprises, Shree Cement Ltd. (rated CARE AAA Stable/A1+), Mangalam Cements Limited (rated CARE A+; Stable/A1), Ultratech Cement, Talwandi Sabo Power Ltd; Vedanta Group, B K Birla Group, Bangur Group and Grasim Industries Limited.

Satisfactory profitability margins: The profit margins remained satisfactory marked by operating margin of 16.56% (FY19:11.19%) and PAT margin of 6.67% (FY19:1.19%) in FY20. The operating margin has witnessed continuous growth during last three years (FY18-FY20) on account of increasing revenue from transportation, commission and service charges. Moreover, the PAT margin witnessed erratic trend during last three years and the same after significant deterioration in FY19 owing to higher revenue generated from trading activities; the same has improved significantly during FY20 as the company has generated nil revenue from trading activities.

Comfortable capital structure: The capital structure of the company has improved on account of accumulation of surplus into reserves and lower utilisation of working capital limits and the same remained comfortable marked by overall gearing ratio of 0.89x (FY19:2.16x) as on March 31, 2020.

Liquidity: Adequate - Liquidity is marked by sufficient cushion in accruals vis-a-vis low repayment obligation, modest cash and cash equivalents and moderately utilised bank limits. Further, the liquidity is also supported by liquid investment of Rs.1.49 crore in form of investment in quoted equity shares as on March 31, 2020. The average utilization of working capital limit was around 83.30% during last 12 month ended on June 30, 2020. The unencumbered cash and cash equivalent stood at Rs.0.10 crore as on March 31, 2020. The company has reported cash accruals of Rs.0.80 crore during FY20. Moreover, the company has not availed any moratorium from its lender that could be availed as per RBI recent circular. Further, the company has not availed any COVID relief loan from its lender.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch'](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

About the Company

Incorporated in 1982, Kabra Commercial Limited (KCL) was promoted by Mr. Rajesh Kumar Kabra who is associated with coal trading industry for more than three decades. 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, apart from coal trading. The company procures coal from the coal mines of Coal India Limited in the states of Maharashtra, Chhattisgarh, Madhya Pradesh, Rajasthan, Gujrat, Meghalaya and Orissa through e-auction. All the trading sales of the company are order based. KCL provides its services to a diversified client base in Cement, Power, Steel and other industries.

Brief Financials (Rs. crore)	31-03-2019	31-03-2020
	A	A
Total operating income	21.26	12.10
PBILDT	2.38	2.00
PAT	0.25	0.81
Overall gearing (times)	2.16	0.89
Interest coverage (times)	2.29	2.65

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Bank Overdraft	LT	0.75	CARE BB; Stable	-	1)CARE BB; Stable (03-Sep-19)	-	-
2.	Non-fund-based - ST-ILC/FLC	ST	19.15	CARE A4+	-	1)CARE A4+ (03-Sep-19)	-	-

Annexure 3: 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. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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