

Kabra Commercial Limited

September 03, 2019

Ratings

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

*Details of facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of **Kabra Commercial Limited (KCL)** are constrained by its small scale of operations, stretched collection period, moderate capital structure with moderate debt coverage indicators and intense competition in the industry due to low entry barriers. However the aforesaid constraints are partially offset by the extensive industry experience of the promoters, satisfactory, though fluctuating, profitability margins and reputed clientele.

Going forward, the ability of the company to grow its scale of operations along with sustaining current profitability margins and timely receipt of collection from its debtors will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations: Though, the total operating income of the company has witnessed increasing trend during last three years on account of higher execution of orders, the overall scale of operations of the company remained small marked by total operating income of Rs.21.26 crore (Rs.16.61 crore in FY18) with a PAT of Rs.0.25 crore (Rs.0.98 crore in FY18) in FY19. The PAT level improved significantly during FY17 and FY18 mainly on account of higher revenue generated from service and commission charges on coal liaisoning services. However, the PAT level declined to Rs.0.25 crore during FY19 as against Rs.0.98 crore during FY18 mainly due to bad debt written off amounting to Rs.1.02 crore during FY19. Moreover, the total capital employed and adjusted tangible networth stood modest at Rs.26.38 crore and Rs.8.35 crore respectively as on March 31, 2019. 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.

Stretched collection period: The operations of the company remained working capital intensive as reflected by its high average collection period. The company allows credit of around one and half months to its customers due to its presence in an intensely competitive industry. The stretch in receivables has ultimately resulted in high average working capital utilization restricting the overall financial flexibility of the company. However, the company receives credit of around half a 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 80.95% during last 12 months ended in July 31, 2019.

Moderate capital structure with moderate debt coverage indicators: The capital structure of the company deteriorated and remained moderate marked by overall gearing ratio of 2.16x (1.32x as on March 31, 2018) as on March 31, 2019. The overall gearing ratio has deteriorated as on March 31, 2019 due to higher working capital utilization. Moreover, the debt coverage indicators of the company remained moderate marked by interest coverage of 2.29x (1.83x in FY18) and total debt to GCA of 13.98x (10.63x in FY18) in FY19. The interest coverage improved during FY19 due to higher increase in PBILD level as against interest costs. Furthermore, total debt to GCA also deteriorated in FY19 due to increase in debt level.

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 trades 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

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

Extensive industry experience of the promoters: 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 49 years), having more than two 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 68 years) having around four decades of experience in this line of business and other non-executive and independent directors along with a team of experienced professional.

Satisfactory, though fluctuating, profitability margins: Though the profitability margins stood satisfactory during FY19, the same witnessed fluctuating trend during last three years i.e. FY17-FY19. The operating margin after significant improvement during FY17 on account of higher revenue generated from service and commission charges, the same deteriorated to 8.49% in FY18 as against 26.75% in FY17 due to higher revenue generated from trading sales. However, the operating profit margin remained satisfactory at 11.19% during FY19. Accordingly, the PAT margin also moved in line with the PBILDT margin during last three years and the same stood at 1.19% in FY19 as against 5.93% in FY18.

Reputed Clientele: 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, Maheshwari Logistics Ltd, Vidhi Enterprises, Shree Cement Ltd., Mangalam Cements Limited, Ultratech Cement, Talwandi Sabo Power Ltd; Vedanta Group, B K Birla Group, Bangur Group and Grasim Industries Limited.

Comment on liquidity position

The liquidity position of the company was moderate marked by free cash and bank balance of Rs.4.10 crore as on March 31, 2019. The company has generated gross cash accrual of Rs.1.29 crore during FY19. Further, the liquidity is also supported by liquid investment of Rs.1.40 crore in form of investment in quoted equity share and mutual funds as on Mar 31, 2019. Moreover, the current ratio was low at 0.40x as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

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

[Criteria for Short Term Instruments](#)

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

[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 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 which was around 46.33% of total revenue in FY19. 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	16.61	21.26
PBILDT	1.41	2.38
PAT	0.98	0.25
Overall gearing (times)	1.32	2.16
Interest coverage (times)	1.83	2.29

A-Audited

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

Any other information: Not Applicable.

Rating History (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Bank Overdraft	LT	0.75	CARE BB; Stable	-	-	-	-
2.	Non-fund-based - ST-ILC/FLC	ST	19.15	CARE A4+	-	-	-	-

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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