

Press Release

Kay Hardware

August 21, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (**read as SMERA BB**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 9.50 crore bank facilities of Kay Hardware. The outlook is '**Stable**'.

Kay Hardware (KH), established in 1999 is an Uttar Pradesh-based hardware manufacturer and exporter of brass door handles, brass handrail brackets, brass door knockers among others. The firm was promoted by Mr. Mahesh Agarwal, Mr. Piyush Agarwal and Mr. Mayank Agarwal and the manufacturing facility is located at Aligarh, Uttar Pradesh.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

The firm was established in 1999 by Mr. Agrawal based at Aligarh. The managing partners, Mr. Mahesh Kumar Agarwal, Mr. Mayank Agarwal and Mr. Piyush Agarwal have over a decade of experience in designing, producing and exporting brass window parts, door bolts, metal fasteners, handrail brackets to name a few.

- Healthy profitability margins**

The operational track record has been healthy with operating margin of 18.81 percent in FY2015-16 compared to 17.55 percent in FY2014-15. The PAT margin stood at 13.28 percent in FY2015-16 as compared to 10.02 percent in FY2014-15.

- Average financial risk profile**

The firm has average financial risk profile marked by networth of Rs. 3.85 crore as on 31 March 2016 as compared to Rs. 4.21 crore as on 31 March 2015. The gearing stood at 2.39 times as on 31 March, 2016 as compared to 1.72 times as on 31 March, 2015. The interest coverage ratio stood healthy at 7.08 times for FY2015-16 as compared to 4.01 times for FY2014-15.

Weaknesses

- Small scale of operations**

The scale of operations is small with revenue of Rs. 18.36 crore in FY2016. Further, the company booked revenue of ~Rs. 15 crore for FY2017. KH exports the aforementioned products to USA, UK and Canada. With around 90 per cent sales to USA, 7 percent to UK and 3 per cent to Canada, the firm is exposed to changes in political and economic scenarios in the abovementioned countries.

- Working capital intensive operations**

KH has working capital intensive operations with elongated working capital cycle of 189 days in

FY2015-16. The company has high GCA of 204 days in FY2015-16 on account of high inventory days of 163 in FY2015-16.

• Susceptibility of profitability to volatility in raw material prices and exchange rates

The profitability is susceptible to volatility in raw material prices of brass. KH has 100 per cent exports sales, thus the profit margins are susceptible to fluctuations in foreign exchange rates.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the company.

Outlook: Stable

SMERA believes that the outlook for Kay Hardware will remain Stable over the medium term on the back of its experienced promoters. The outlook may be revised to 'Positive' in case of further improvement in the scale of operations, while maintaining profitability and efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and profitability or deterioration in the capital structure.

About the Rated Entity - Key Financials

For 2015-16, Kay Hardware reported net profit after tax (PAT) of Rs.2.44 crore on operating income of Rs. 17.07 crore as against PAT of Rs. 1.91 crore on operating income of Rs. 19.09 crore. The tangible net worth stood at Rs. 3.85 crore as on 31 March 2016 as against Rs. 4.21 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jul-2017	Packing Credit	Short Term	INR 7.00	SMERA A4+ (Reaffirmed)
	Post Shipment Credit	Short Term	INR 1.00	SMERA A4+ (Reaffirmed)
	Term Loan	Long Term	INR 0.12	SMERA BB/ Stable (Reaffirmed)
	Term Loan	Long Term	INR 0.38	SMERA BB/ Stable (Reaffirmed)
16-May-2017	Packing Credit	Short Term	INR 4.00	SMERA A4+ (Indicative)

	FDB/FBE	Short Term	INR 1.00	SMERA A4+ (Indicative)
	Term Loan	Long Term	INR 0.95	SMERA BB (Indicative)
	Proposed Fund Based	Short Term	INR 2.55	SMERA A4+ (Indicative)
28-Dec-2015	Packing Credit	Short Term	INR 4.00	SMERA A4+ (Assigned)
	FDB/FBE	Short Term	INR 1.00	SMERA A4+ (Assigned)
	Term Loan	Long Term	INR 0.95	SMERA BB / Stable (Assigned)
	Proposed Fund Based	Short Term	INR 2.55	SMERA A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A4+ (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+ (Reaffirmed)
Term loans I	Not Applicable	Not Applicable	Not Applicable	0.34	SMERA BB / Stable (Reaffirmed)
Term loans II	Not Applicable	Not Applicable	Not Applicable	0.13	SMERA BB / Stable (Reaffirmed)
Term loans III	Not Applicable	Not Applicable	Not Applicable	0.22	SMERA BB / Stable (Assigned)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	0.81	SMERA A4+ (Assigned)

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ABOUT SMERA

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