

Press Release

Hitaishi KK Manufacturing Company Private Limited

13 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 33.00 crore bank facilities of Hitaishi KK Manufacturing Company Private Limited. The outlook is '**Stable**'.

Hitaishi K K Manufacturing was formed in 1974 as a partnership firm by Mr. Om Prakash Prahladka. Later in 2010, it was converted into a private limited company. The company manufactures and exports musical instruments and handicrafts made out of wood, jute, horn, etc with its manufacturing facility located in Kolkata. The company procures its raw material locally. The company sells around 95 per cent in the export market to countries such as Dubai, Japan, USA and Europe and the balance is sold in the domestic market.

Key Rating Drivers

Strengths

• Experienced Management

The promoters of the company Mr Om Prakash Prahladka have more than four decades of experience in manufacturing of musical instruments and handicraft items.

• Average financial risk profile

The average financial risk profile of the company is marked by healthy network, moderate gearing and modest debt protection metrics. The net worth of the company stood healthy at Rs.19.13 crore in FY2017 as compared to Rs.18.39 crore in FY2016, mainly on account of retention of current year profit. The gearing of the company stood moderate at 1.49 times in FY2017 as against 1.17 times in FY2016. The total debt of Rs.28.59 crore consist of unsecured loan of Rs.1.76 crore from promoters and short term loan of Rs.26.82 crore. The interest coverage ratio (ICR) of the company stood modest at 1.51 times in FY2017 as compare to 1.75 times in FY2016. The debt service coverage ratio (DSCR) of the company stood comfortable at 1.39 times in FY2017 as compare to 1.58 times in FY2016. The net cash accruals against the total debt (NCA/TD) stand low at 0.04 times in FY2017 as compare to 0.06 times in FY2016.

Weaknesses

• Working capital intensive nature of operation

The company's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 384 days in 2016-17, as compare to 309 days in 2015-16. These high GCA days emanates from collection period and high inventory days of 180 and 181 days respectively in FY17. The company's operations are expected to remain capital intensive, as the company is engaged manufacturing wood products and export to the different country, which leads to a relatively high collection and inventory period mainly inherent cyclicity of the wood industry.

• Susceptibility of margins to fluctuations in foreign exchange rate:

Around 95 per cent in FY2017 of its revenue is from exporting to countries like Europe, Dubai, USA, Japan and Germany etc. It also procures its raw materials from Malaysia, Italy, Nigeria, etc. Its sales and profit margins remain susceptible to fluctuations in foreign exchange rate. However it is mitigated by the fact that the company enjoys a natural hedge.

Analytical Approach

For arriving at the ratings SMERA has considered the standalone financial performance and financial risk profile of HKKMPL.

Outlook: Stable

SMERA believes HKKMPL will maintain a stable business risk profile in the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins and improves its working capital management. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	60.21	62.83	55.33
EBITDA	Rs. Cr.	4.28	4.01	4.03
PAT	Rs. Cr.	0.74	0.87	1.17
EBITDA Margin	(%)	7.10	6.39	7.28
PAT Margin	(%)	1.23	1.38	2.11
ROCE	(%)	9.11	9.18	20.09
Total Debt/Tangible Net Worth	Times	1.49	1.17	1.13
PBDIT/Interest	Times	1.51	1.75	1.64
Total Debt/PBDIT	Times	6.52	5.18	4.71
Gross Current Assets (Days)	Days	384	309	335

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

NA

Any other information

NA

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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Foreign Bill Purchase	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA A4+
Packing Credit	Not Applicable	Not Applicable	Not Applicable	14.50	SMERA A4+
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in Abhishek Dey Executive Analyst - Rating Operations Tel: +91 33 6620 1208 abhishek.dey@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.