

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 riskprofile**

The average financial risk profile of the company is marked by healthy networth, 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

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ABOUT SMERA

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