

## Press Release

Hitaishi KK Manufacturing Company Private Limited (HKKCPL)

04 Nov, 2019

Rating Reaffirmed



|                                     |                                   |
|-------------------------------------|-----------------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 33.00 Cr.                     |
| <b>Long Term Rating</b>             | ACUITE BB-/Stable<br>(Reaffirmed) |
| <b>Short Term Rating</b>            | ACUITE A4+<br>(Reaffirmed)        |

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) and reaffirmed the short term rating of '**ACUITE A4+ (read as ACUITE A four plus)**' to the Rs.30.00 crore of bank facilities of Hitaishi KK Manufacturing Company Private Limited (HKKCPL). Acuite has also assigned the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+ (read as ACUITE A four plus)**' to the Rs.3.00 crore of bank facilities of Hitaishi KK Manufacturing Company Private Limited (HKKCPL). The outlook is '**Stable**'.

Hitaishi KK 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.

#### **Analytical Approach:**

Acuite has considered the standalone business and financial risk profile of HKKCPL to arrive at the rating.

#### **Key Rating Drivers:**

##### **Strengths**

##### **Experienced management and long track record of operation**

The promoter, Mr. O P Prahladka has more than four decades of experience in manufacturing of musical instruments and handicraft items. Hitaishi was set up in 1974 and was converted into a private limited company in 2010. It has a long track record of operations.

##### **Average financial risk profile**

The average financial risk profile of the company is marked by moderate net worth, moderate gearing and healthy debt protection metrics. The net worth of the company stands moderate at Rs.21.97 crore in FY2019 (Prov.) as compared to Rs.21.00 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit. Acuite has included Rs.7.49 crore unsecured loan from promoters as quasi capital as management has undertaken they will maintain this in business over the medium term. The gearing of the company stands moderate at 1.42 times as on March 31, 2019 (Prov.) when compared to 1.34 times as on March 31, 2018. The total debt of Rs.31.16 crore in FY2019 (Prov.) is consist short term loan of Rs.28.31 crore, long term debt of Rs.1.52 crore and unsecured loan from promoters of Rs.1.33 crore. Interest coverage ratio (ICR) is comfortable and stands at 1.45 times in FY2019 (Prov.) as against 1.52 times in FY 2018. The debt service coverage ratio also stands comfortable at 1.37 times in FY2019 (Prov.) as against of 1.43 times in FY2018.

##### **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 372 days in FY2019 (prov.), as compared to 360 days in FY2018. These high GCA days emanates from collection period and high inventory days of 115 and 234 days in FY19 (Prov.). The company's operations are expected to remain capital intensive, as the company is engaged manufacturing wood products which requires long processing time.

### Susceptibility of margins to fluctuations in foreign exchange rate

Around 70% in FY2019 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.

### Rating Sensitivity

- Scaling up of operations while maintaining profitability margin

### Material Covenant

None

### Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.1.06 crore in FY2019 (Prov.) as against Rs.0.36crore of yearly debt obligation. The cash accruals of the company are estimated to remain in the range of around Rs. 1.09 crore to Rs. 1.51 crore during 2020-22 against repayment obligations ranging from Rs. 0.36 crore. The working capital of the company is stretched marked by gross current asset days of 372 in FY2019 (Prov.). The bank limit is 100 per cent utilized by the company and. The company maintains unencumbered cash and bank balances of Rs. 0.81 crore as on March 31, 2019. The current ratio of the company stood at 1.46 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

### Outlook: Stable

Acuite 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 their 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    | FY19 (Prov.) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 61.35        | 60.19         | 60.21         |
| EBITDA                        | Rs. Cr. | 4.01         | 3.86          | 4.21          |
| PAT                           | Rs. Cr. | 0.65         | 0.69          | 0.74          |
| EBITDA Margin                 | (%)     | 6.54         | 6.41          | 6.99          |
| PAT Margin                    | (%)     | 1.06         | 1.15          | 1.23          |
| ROCE                          | (%)     | 7.31         | 7.19          | 16.46         |
| Total Debt/Tangible Net Worth | Times   | 1.47         | 1.36          | 1.49          |
| PBDIT/Interest                | Times   | 1.45         | 1.52          | 1.52          |
| Total Debt/PBDIT              | Times   | 7.62         | 7.27          | 6.62          |
| Gross Current Assets (Days)   | Days    | 372          | 360           | 384           |

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

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

**Rating History (Upto last three years)**

| Date        | Name of Instrument / Facilities | Term       | Amount (Rs. Cr.) | Ratings / Outlook                   |
|-------------|---------------------------------|------------|------------------|-------------------------------------|
| 14-May-2019 | Foreign Bill Purchase           | Short Term | 2.00             | ACUITE A4+ Issuer not co-operating* |
|             | Packing Credit                  | Short Term | 12.00            | ACUITE A4+ Issuer not co-operating* |
|             | Cash Credit                     | Long Term  | 9.75             | ACUITE BB- Issuer not co-operating* |
|             | Proposed Long Term              | Long Term  | 4.25             | ACUITE BB- Issuer not co-operating* |
|             | Letter of Credit                | Short Term | 8.00             | ACUITE A4+ Issuer not co-operating* |
| 13-Apr-2018 | Foreign Bill Purchase           | Short Term | 2.00             | ACUITE A4+ (Assigned)               |
|             | Packing Credit                  | Short Term | 12.00            | ACUITE A4+ (Assigned)               |
|             | Cash Credit                     | Long Term  | 9.75             | ACUITE BB-/Stable (Assigned)        |
|             | Proposed Long Term              | Long Term  | 4.25             | ACUITE BB-/Stable (Assigned)        |
|             | Letter of Credit                | Short Term | 8.00             | ACUITE A4+ (Assigned)               |

**\*Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate    | Maturity Date  | Size of the Issue | Ratings/Outlook                |
|------------------------|------------------|----------------|----------------|-------------------|--------------------------------|
| Foreign Bill Purchase  | Not Applicable   | Not Applicable | Not Applicable | 11.00             | ACUITE A4+ (Reaffirmed)        |
| Packing Credit         | Not Applicable   | Not Applicable | Not Applicable | 11.50             | ACUITE A4+ (Reaffirmed)        |
| Cash Credit            | Not Applicable   | Not Applicable | Not Applicable | 4.00              | ACUITE BB-/Stable (Reaffirmed) |
| Term Loan              | Not Applicable   | Not Applicable | Not Applicable | 2.00              | ACUITE BB-/Stable (Assigned)   |
| Proposed Long Term     | Not Applicable   | Not Applicable | Not Applicable | 1.00              | ACUITE BB-/Stable (Reaffirmed) |
| Letter of Credit       | Not Applicable   | Not Applicable | Not Applicable | 2.50              | ACUITE A4+ (Reaffirmed)        |
| Bank Guarantee         | Not Applicable   | Not Applicable | Not Applicable | 1.00              | ACUITE A4+ (Assigned)          |

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|---|---|
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**About Acuite Ratings & Research:**

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