

Press Release

Hitaishi KK Manufacturing Company Private Limited

September 01, 2021

Rating Downgraded



Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	ACUITE D (Downgraded)
Short Term Rating	ACUITE D (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE D' (read as ACUITE D)** from '**ACUITE BB-' (read as ACUITE double B minus)** and the short term rating to '**ACUITE D' (read as ACUITE D)** from '**ACUITE A4+' (read as ACUITE A four plus)' to the Rs.33.00 crore bank facilities of Hitaishi KK Manufacturing Company Private Limited.**

The rating downgrade is on account of delays in repayment of their term loans of around 10 to 15 days in July 2021. The delays have been mainly due to a stretched liquidity position marked by elongation in receivables. The receivable days have significantly increased to 245 days in FY21 (Prov.) as compared 143 days in the previous year.

About the company

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:

Acuité has considered the standalone business and financial risk profile of HKKMCPL while arriving 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.

Weaknesses

Delays in servicing debt obligations

The company has been delaying in servicing its debt obligations for about 10-15 days in the past six months ended July 2021; owing to stretch in its liquidity. The stretch in liquidity is due to delay in receiving payments from the customers. This has caused delays in repaying the obligations to the banks and full utilization of the working capital fund-based facility.

Moderate financial risk profile

The financial risk profile of the company is marked by moderate net worth, high gearing and moderate debt protection metrics. The net worth of the company stood moderate at Rs.21.66 crore in FY 2021 (Prov.) as compared to Rs 21.61 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company has stood high at 1.43 times as on March 31, 2021 (Prov.) when compared to 1.34 times as on March 31, 2020. However, this slight increase in gearing is on account of increase in short term debt during the period. Interest coverage ratio (ICR) is low and stood at 1.17 times in FY2021 (Prov.) as against 1.28 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood low at 1.02 times in FY2021 (Prov.) and in the previous year respectively. The net cash accruals to total debt (NCA/TD) stood low at 0.02 times in FY2021 (Prov.) and 1.06 times in FY2020. Going forward, Acuite believes the financial risk profile of the company will remain improve on account of improvement in net cash accruals

and no major debt funded capex plan over the near term.

Working capital intensive nature of operation

The working capital intensive nature of operation is marked by high gross current asset (GCA) days of 593 days in FY2021 (Prov.) as compared to 517 days in the previous year. This increase in gross current asset days is on account of increase in debtor days to 245 days in FY2021 (Prov.) as compared to 143 days in the previous year. The inventory holding period of the company is high at 362 days in FY2021 (Prov.) as compared to 371 days in the previous year. Further, the working capital has been utilized fully during the last six months ended July 2021. Acuité believes any further elongation in working capital would be a key rating sensitivity factor.

Rating Sensitivity

- Timely repayment of debt obligation
- Working capital management

Material Covenant

None

Liquidity Position: Stretched

The company's liquidity position is stretched as reflected by the fully utilized working capital limits. The company has been delaying in servicing its debt obligations in every month by about 10-15 days; owing to stretch in its liquidity. The stretch in liquidity is due to delay in receiving payments from the customers. The working capital management of the company is marked by high gross current asset (GCA) days of 593 days in FY2021 (Prov.). The current ratio of the company stood comfortable at 1.48 times in FY2021 (Prov.). The company had low unencumbered cash balances of Rs. 0.12 Cr as on 31st March, 2021 (Prov.).

Outlook: Not Applicable

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	33.80	38.98
PAT	Rs. Cr.	0.05	0.13
PAT Margin	(%)	0.15	0.34
Total Debt/Tangible Net Worth	Times	2.60	2.47
PBDIT/Interest	Times	1.17	1.28

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-52.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
4-Nov-2019	Foreign Bill Purchase	Short Term	11.00	ACUITE A4+ (Reaffirmed)
	Packing Credit	Short Term	11.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB-/Stable

				(Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BB-/Stable (Assigned)
	Proposed Long Term	Long Term	1.00	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	2.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Assigned)
14-May-2019	Foreign Bill Purchase	Short Term	2.00	ACUITE A4+ (Indicative)
	Packing Credit	Short Term	12.00	ACUITE A4+ (Indicative)
	Cash Credit	Long Term	9.75	ACUITE BB- (Indicative)
	Proposed Long Term	Long Term	4.25	ACUITE BB- (Indicative)
	Letter of Credit	Short Term	8.00	ACUITE A4+ (Indicative)
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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Indian Bank	Foreign Bill Purchase	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE D (Downgraded)
Indian Bank	Packing Credit	Not Applicable	Not Applicable	Not Applicable	11.50	ACUITE D (Downgraded)
Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE D (Downgraded)
Indian Bank	Term Loan	Not Applicable	11.30%	Dec 2023	2.00	ACUITE D (Downgraded)
Not Applicable	Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE D (Downgraded)

Indian Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE D (Downgraded)
Indian Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE D (Downgraded)

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About Acuité Ratings & Research:

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