Press Release

Kay Kay Trading Company

February 25, 2021

Rating Upgraded

Total Bank Facilities Rated*	Rs.14.75 Cr.
Long Term Rating	ACUITE BBB+/Outlook: Stable (Upgraded from ACUITE BB+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB+**' **(read as ACUITE triple B plus)** from '**ACUITE BB+**' **(read as ACUITE double B plus)** on the Rs.14.75 Cr. bank facilities of Kay Kay Trading Company (KKTC). The outlook is **'Stable'**.

Reason for rating upgrade

The rating upgrade is on account of long track record of operations, augmentation in the business risk profile along with sustained growth in the scale of operations, moderate net worth, efficient working capital nature of operations and adequate liquidity position. The rating also factors in long extensive experience of promoters in the trading industry followed by reputed clientele of top cement manufactures of the country including Ultratech Cement Ltd., Dalmia Cement Ltd., JK Cement Ltd., Ramco Cement Ltd., among others. However, the rating is constrained by thin profitability margins owing to inherent nature of trading industry along with susceptibility of margins to raw material price volatility and intense competition.

The revenue from operations of the firm have improved to Rs.564.52 Cr. in FY20 as against Rs.354.91 Cr. in FY19 resulting in a y-o-y growth of 59 percent. Further, the firm has reported revenues of Rs.427.27 Cr. from April, 20 to January, 21 period in FY21 despite lower construction activities leading to limited sales traction in Q1FY2021 on account of outbreak of covid–19 followed by lockdowns across the nation. The increase in revenues is on account of significant improvement in demand of gypsum in the cement industry owing to high demand from infrastructure sector. However, the operating profit margin of the firm decline to 3.06 percent in FY20 as against 3.70 percent in FY19 on account of increase in cost of traded goods. Further, the company has efficient working capital management marked by improvement in GCA days to 43 days in FY20 as against 49 days in FY19. However, any further deterioration in operating margins and financial risk profile of the firm will remain a key rating sensitivity going forward.

About the company

Mumbai based Kay Kay Trading Company (KKTC) is a partnership firm set up in 1988 by Mr. Manoj Khetan, Mrs. Sunita Khetan and Mr. Nishit Khetan. The firm is currently engaged in trading of mineral gypsum and clinker to various top cement companies in the country. Prior to trading of gypsum and clinker, the firm was engaged in trading of bearings which has now been discontinued.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KKTC to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations with reputed clientele**
  The Mumbai-based KKTC was incorporated in 1988 by Mr. Manoj Khetan and family. The promoters possess over three decades of experience in the trading business. The extensive experience of the promoters has helped the firm to established strong ties with its suppliers and customers. The firm caters to nationally renowned cement manufacturing companies, including Ultratech Cement Ltd., Dalmia Cement Ltd., JK Cement Ltd., Ramco Cement Ltd., among others.
  Acuité believes that the firm will continue to benefit from its experienced management and established

relationships with both customers as well as suppliers in the medium term.

- **Augmentation in business risk profile**
  The operations of the firm have significantly improved marked by an increase in the operating income of the firm by ~59 percent y-o-y growth to Rs.564.52 Cr. in FY20 as against Rs.354.91 Cr. in FY19. The firm has reported revenues of around Rs.427.27 Cr. in April, 20 to January, 21 period of FY21 despite lockdowns across the nation, thereby restricting construction activities followed by movements of goods and people in Q1FY2021. The significant improvement in revenues was account of strong demand of gypsum and clinker from the cement industry led by higher infrastructure development in the country. Further, as on January 31, 2021 the firm has an unexecuted order book position of ~Rs.170.55 Cr. along with running orders from existing clients. However, the operating profit of the firm have decline to 3.06 percent in FY20 as against 3.70 percent in FY19 on account of increase in cost of traded goods. Further, the operating margin stood 3.04 percent in FY21YTD (April, 20 – Jan, 21).

  Acuité believes that the business risk profile of the firm is expected to improve in the medium term on account of increase in demand of cements owing to government push towards infrastructure development.

- **Moderate financial risk profile**
  The financial risk profile of firm is moderate marked by moderate net worth, gearing and debt protection matrices. The tangible net worth of the company increased to Rs.25.28 Cr. as on 31 March, 2020 as against Rs.18.17 Cr. same period last year on account of retention of profit for the same period. Despite increase in net worth, the gearing of the firm slight increased to 0.69 times as on 31 March, 2020 as against 0.42 times same period last year on account of increase in total debt levels of the firm. The total debt as on 31 March, 2020 consists of working capital limits from banks of Rs.11.23 Cr. and unsecured loan from various entities of Rs.5.29 Cr. The increase in interest cost couple with marginal deterioration in profitability of the firm resulted in deterioration in debt protection matrices marked by Interest Coverage Ratio (ICR) of 11.43 times in FY20 as against 12.93 times in FY19. Further, the debt to EBITDA of the firm also deteriorated to 1.00 times in FY20 as against 0.58 times in FY19 and the TOL/TNW increased marginally to 1.93 times as on 31 March, 2020 as against 1.82 times same period last year.

  Acuité believes that the financial risk profile of the firm is expected to remain moderate in the absence of any major debt funded capex in near to medium term.

- **Working capital efficient nature of operations**
  The working capital management of the firm have been efficient marked by moderate and improved Gross Current Asset days to 43 days in FY20 as against 49 days in FY19. This is majorly on account of decline in receivables period to 24 days in FY20 as against 29 days in FY19. The inventory holding period stood at 14 days in FY20 as against 13 days in FY19. The payable period remained at same level of 13 days in both FY20 and FY19 respectively. Further, the average bank limit utilization in last six months ended Jan, 21 remain negative ~2 percent owing to surplus case available for most part of the months as reflected from the bank statements and the current ratio of the firm remained moderate at 1.62 times as on 31 March, 20.

  Acuité believes that the ability of the firm to maintained efficient working capital management will remain a key rating sensitivity.

Weaknesses

- **Vulnerability of profitability owing to volatility in steel prices**
  The profitability margins of the firm are susceptible to volatility in gypsum and clinker prices in the international market as the firm imports 100 percent of its traded goods from Middle Eastern countries. Significant changes in prices of gypsum and clinkers impact the margins of the firm reflected by decline in operating margin to 3.06 percent in FY20 from 3.70 percent in FY19.

  Acuité believes that profitability of the firm will remain susceptible to volatility in gypsum and clinker prices in the near to medium term.

- **Susceptibility to cyclicality nature of industry and competitive nature of industry**
  The firm engaged in trading business of gypsum and clinker to the top cement manufacturers of the

country. The cement consumption is majorly dependent upon the economic activities taking place in and around the country. The end user industry being infrastructure and real state, any significant slowdown in these industries will impact the demand of cement and will impact the revenues of the firm. Further, the firm competes with various players in the organized and unorganized segments in the gypsum trading industry, thus limiting the pricing power.

Rating Sensitivity
- Improvement in revenues while maintaining profitability margins
- Stretch in working capital cycle leading to increase in dependence of bank borrowing and deterioration in liquidity position

Material covenants
None

Liquidity: Adequate
The firm has adequate liquidity position marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.10.43 crore in FY20, while it's maturing debt obligations were Rs.0.84 crore for the same period. The cash accruals of the firm are estimated to remain in the range of ~Rs.10.48-16.34 crore during 2021-23 against zero debt obligation. The firm has efficiently managed the working capital operations reflected by GCA days of 43 days for FY20. The firm maintains unencumbered cash and bank balances of Rs.0.19 crore as on 31 March, 2020. The current ratio stood moderate at 1.62 times as on 31 March, 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable
Acuité believes that the firm will maintain a 'Stable' business risk profile in the medium term on account of its experienced management and improvement scale of operations. The outlook may be revised to 'Positive' in case the firm registers higher than expected growth in revenues and profitability while maintaining efficient working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, or in case of elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	564.52	354.91
PAT	Rs. Cr.	9.96	7.59
PAT Margin	(%)	1.76	2.14
Total Debt/Tangible Net Worth	Times	0.69	0.42
PBDIT/Interest	Times	11.43	12.93

Status of non-cooperation with previous CRA (if applicable)
Not Available

Any other information
Not Available

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.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
27-October-2020	Cash Credit	Long Term	11.50	ACUITE BB+ (Downgraded from ACUITE BBB/Stable; Issuer not co-operating)
	Proposed Bank Facility	Short Term	3.25	ACUITE A4+ (Downgraded from ACUITE A3+; Issuer not co-operating)
02-August-2019	Cash Credit	Long Term	11.50	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
	Proposed Bank Facility	Short Term	3.25	ACUITE A3+ (Upgraded from ACUITE A3)
20-June-2018	Cash Credit	Long Term	7.00	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee/Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	0.75	ACUITE A3 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.75	ACUITE BBB+/ Stable (Upgraded from ACUITE BB+)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Nitul Dutta Analyst - Rating Operations Tel: 022-49294053 nitul.dutta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

hold any security. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.