

## Press Release

### Kay Kay Trading Company

April 18, 2022



### Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.75	ACUITE BBB+   Positive   Upgraded   Stable to Positive	-
Bank Loan Ratings	25.25	ACUITE BBB+   Positive   Assigned	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

\* Refer Annexure for details

### Rating Rationale

Acuite 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).

Acuite has also assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.25.25 Cr bank facilities of KKTC. The outlook is revised from '**Stable**' to '**Positive**'.

### Rationale for rating upgrade and revision in the outlook:

The rating was previously downgraded on account of information risk. The rating upgrade is on account of long track record of operations & experienced management along with reputed clientele of top cement companies namely Ultratech Cement Ltd., Dalmia Cement Ltd., JK Cement Ltd., Ramco Cement Ltd., among others. The rating also factors in stable revenues in FY2021 despite covid-19 impact & expected improvement in the revenues & margins going forward with efficient working capital management, comfortable financial risk profile and strong liquidity position. However, the rating is constrained by risk of capital withdrawal owing to proprietorship nature of business, thin profitability margins owing to inherent nature of trading industry along with susceptibility of margins to raw material price volatility and intense competition.

### About the Firm

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. Further, the firm started trading of gypsum from FY17 and clinker from FY20 and it imports all traded goods from the Middle East countries. The firm currently operates from 14 ports across the country.

## Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of KKTC to arrive at the 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 establish 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. The extensive experience of promoters is reflected through the stagnant revenue of the firm at Rs.562.10 crore in FY2021 against 564.52 crore in FY2020 even at the time of COVID-19. However, the firm has already achieved turnover of Rs.612.40 crore up to March 30, 2022 and is expecting to achieve around Rs.614-615 crore in FY2022. The firm has orders in hand of around Rs.80.00 crore as on date which is expected to be completed by May, 2022 and also planning for expansion in the form of one more trading office, more labours and adding new products and export clinker to other countries. Hence, this gives adequate revenue visibility over the medium term and the management is expecting 10-15 percent increase in the revenues every year going forward.

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.

#### >Healthy financial risk profile

Financial risk profile of KKTC is healthy marked by improving gearing (debt to equity ratio) & moderate total outside liabilities to total net worth (TOL/TNW), and comfortable debt protection metrics. The gearing stood at 0.60 times as on March 31, 2021 against 0.69 times as on March 31, 2020 on account of plough back of profits to reserves. TOL/TNW stood at 2.61 times as on March 31, 2021 against 1.93 times as on March 31, 2020. Tangible net worth of the firm stood modest at Rs.25.99 crore as on March 31, 2021 against Rs.25.28 crore as on March 31, 2020. Of the total debt of Rs.15.69 crore as on March 31, 2021, long-term debt stood at Rs.1.07 crore, short-term debt stood at Rs.12.30 crore, unsecured loans stood at Rs.2.08 crore and CPLTD stood at Rs.0.24 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood comfortable at 12.74 times and 0.66 times respectively in FY2021; while DSCR stood at 7.35 times in FY2021.

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

#### >Working capital efficient nature of operations

KKTC's working capital operations are efficient marked by moderate Gross Current Asset days (GCA) of 56 days in FY2021 against 43 days in FY2020. This is majorly on account of efficient inventory and receivable management. The inventory days stood at 5 days in FY2021 against 14 days in FY2020. The inventory has reduced in FY2021 as compared to FY2020 since imports were less during the pandemic. Also, already available stock was sold to the customers. The inventory holding policy of the firm depends on the demand and orders in hand. However, there are no dead stock or cancelled orders. The debtors' days stood at 28 days in FY2021 against 24 days in FY2020 which is corresponding to normal terms with the customers. The credit period given to customers is 0-30 days. The creditors' days stood at 24 days in FY2021 against 13 days in FY2020. The firm makes advance payment partially and the remaining is paid within 1 month. The current ratio of the firm also remained moderate at 1.40 times as on March 31, 2021. However, working capital limits remains utilized at 30-40 percent for last 5 months ended March, 2022.

Acuité believes that the ability of the firm to maintain 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 3.04 percent in FY2021 from 3.06 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 cyclical 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 Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

## Material covenants

None

## Liquidity Position: Strong

KKTC has a strong liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals in the range of Rs.8.04 crore – Rs.10.43 crore during the last three years through FY2019-21 against moderate repayment obligations of Rs.0.24 crore during the same period. It is expected to generate cash accruals in the range of Rs.12.06 crore – Rs.16.44 crore over the medium term, against moderate repayment obligations in the range of Rs.0.12 crore – Rs.0.24 crore. Unencumbered cash and bank balances stood at Rs.27.11 crore as on March 31, 2021 with a current ratio of 1.40 times in the same period. Liquid investments stood at Rs.0.26 crore as on March 31, 2021. KKTC's working capital operations are efficient marked by moderate Gross Current Asset days (GCA) of 56 days in FY2021 against 43 days in FY2020. This is majorly on account of efficient inventory and receivable management. The working capital limits remained utilized at ~30-40 percent for last trailing 5 months ended March, 2022.

Acuité believes that liquidity profile is expected to remain strong on account of adequate cash accruals against moderate repayment obligations.

## Outlook: Positive

Acuité believes that KKTC will maintain a 'Positive' outlook over the medium term owing to its experienced management & long track record of operations, stable in the revenues & margins, comfortable financial risk profile & strong liquidity position. The outlook may be revised to 'Stable' if the firm demonstrates low revenues & margins from the current levels or deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the firm further registers lower than expected growth in revenues and profitability or further deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	562.10	564.52
PAT	Rs. Cr.	9.83	9.96
PAT Margin	(%)	1.75	1.76
Total Debt/Tangible Net Worth	Times	0.60	0.69
PBDIT/Interest	Times	12.74	11.43

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

Not Applicable

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Feb 2022	Cash Credit	Long Term	14.75	ACUITE BB+ (Downgraded and Issuer not co-operating*)
25 Feb 2021	Cash Credit	Long Term	14.75	ACUITE BBB+   Stable (Upgraded from ACUITE BB+)
27 Oct 2020	Cash Credit	Long Term	11.50	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	3.25	ACUITE A4+ (Downgraded and Issuer not co-operating*)
02 Aug 2019	Proposed Bank Guarantee	Short Term	3.25	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	11.50	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
20 Jun 2018	Cash Credit	Long Term	7.00	ACUITE BBB-   Stable (Assigned)
	Proposed Cash Credit	Long Term	5.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	0.75	ACUITE A3 (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.75	ACUITE BBB+   Positive   Upgraded   Stable to Positive ( from ACUITE BB+ )
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.25	ACUITE BBB+   Positive   Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+   Positive   Assigned

### **Note:**

1. Cash Credit from Indusind Bank includes sublimits of WCDL of Rs.20.00 crore, LC of Rs.10.00 crore, BG of Rs.4.00 crore and Standby Letter of Credit backed Buyer's Credit of Rs.10.00 crore.
2. Cash Credit from Yes Bank includes sublimits of WCDL of Rs.20.00 crore, BG of Rs.2.00 crore, ILC of Rs.10.00 crore, Import Finance (Purchase Order Finance) of Rs.20.00 crore, Financial BG / SBLC for availing Buyers Credit of Rs.20.00 crore.
3. The firm has changed from UBI to Indusind Bank. All loans from UBI is closed.

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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