

Press Release

Shree Khatuji Industries

November 21, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 10.00 crore bank facilities of Shree Khatuji Industries (SKI). The outlook is '**Stable**'.

The Himachal Pradesh based, SKI was established in 2003 by Late Mr. Ajay Gupta. The partnership firm is engaged in the manufacturing of Home Appliances VIZ. electronic irons. The firm has a capacity of manufacturing 3.5 Million Irons per annum. The day to day operations are handled by Mr. Gaurav Gupta and Mr. Tarrush Gupta.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Reputed customers**

The firm is an OEM manufacturer of electric irons for Havells, Crompton Greaves, Syska and Borosil among others. The firm has been in relationship with these customers for more than a decade.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by net worth of Rs.7.24 crore as on 31 March, 2018 as against Rs.7.08 crore as on 31 March, 2017. The gearing (debt-equity) stood at 0.85 times as on 31 March, 2018 as against 0.51 times as on 31 March, 2017. The interest coverage ratio stood at 4.28 times for FY2018 as against 9.28 times for FY2017. The total outside liabilities to tangible net worth stood at 1.95 times for FY2018.

Weaknesses

- **Falling operating margins**

The operating margins have shown a downward decline over the past three financial years. The margins stood at 5.80 percent in FY2018 as against 6.57 percent in FY2017 and 7.38 percent in FY2016. The operating margins have declined in the past years due to an increase in raw material prices coupled with reduction in discount rates offered by suppliers.

- **Working capital intensive operations**

The firm has working capital intensive operations marked by Gross Current Assets (GCA) of 128 days in FY2018 as against 96 days in FY2017. The debtor and inventory days stood comfortable at 56 and 56 respectively for FY2018 as against 59 and 27 days in FY2017 respectively. Further, the working capital facilities were fully utilised.

- **Capital withdrawal risk**

SKI is exposed to risk of capital withdrawal considering its proprietorship constitution. However, no such instances have been observed during the period under study.

Outlook: Stable

Acuité believes that SKI will maintain a 'Stable' outlook in the medium term on account of established relationship with reputed clientele. The outlook may be revised to 'Positive' if the firm registers higher-than expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	41.57	31.19	28.90
EBITDA	Rs. Cr.	2.41	2.05	2.13
PAT	Rs. Cr.	0.99	1.23	1.15
EBITDA Margin (%)	(%)	5.80	6.57	7.38
PAT Margin (%)	(%)	2.39	3.94	3.97
ROCE (%)	(%)	13.16	16.87	47.40
Total Debt/Tangible Net Worth	Times	0.85	0.51	0.10
PBDIT/Interest	Times	4.28	9.28	5.20
Total Debt/PBDIT	Times	2.42	1.70	0.28
Gross Current Assets (Days)	Days	128	96	75

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.95	ACUITE BB / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.05	ACUITE BB / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB / Stable

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About Acuité Ratings & Research:

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