

Press Release

Shree Khatuji Industries (SKI)

December 03, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs. 10.00 crore bank facilities of Shree Khatuji Industries. 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 and fans. 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 profile of SKI to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Himachal Pradesh based SKI was established in 2003; thus, the firm has an operational track record of over 15 years in the home appliance industry. Mr. Gaurav Gupta and Mr. Tarrush Gupta have an experience of around 15 years in the aforementioned line of business. The long track record of operations and experience of the management have helped the firm develop healthy relationships with its customers and suppliers. Acuité believes that SKI will sustain its existing business profile on the back of established track record of operations and experienced management.

- **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 and consistent growth in operating income**

The financial risk profile is moderate marked by net worth of Rs.8.16 crore as on 31 March, 2019 as against Rs.7.24 crore as on 31 March, 2018. The gearing (debt-equity) stood at 0.62 times as on 31 March, 2019 as against 0.85 times as on 31 March, 2018. The interest coverage ratio stood at 5.43 times for FY2019 as against 4.28 times for FY2018. The total outside liabilities to tangible net worth stood at 1.61 times for FY2019 as against 1.95 times in FY2018.

The operating income of SKI has grown at a CAGR of 18 percent for the period FY2016-FY2019. The revenues increased to Rs. 47.74 crore in FY2019 from Rs. 41.57 crore in FY2018, Rs. 31.19 crore in FY2017 and Rs. 28.90 crore in FY2016. This is mainly on account of increased orders from existing as well as new customers. In this financial year, the company is projected to achieve a revenue of Rs.55.00 crore and as on 31st October, 2019 the company have achieved a revenue of Rs.31.22 crore. Acuité believes the current revenue is in line with the projected revenue for the year and expected to significantly improve in the upcoming years.

Weaknesses

- **Working capital intensive operations**

The firm has working capital intensive operations marked by Gross Current Assets (GCA) of 114 days in FY2019 as against 128 days in FY2018. The debtor and inventory days stood comfortable at 26 and 57 respectively for FY2019 as against 56 and 56 days in FY2018 respectively. Further, the working capital facilities were fully utilized.

• 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.

Rating Sensitivity Factor

- Significant improvement in revenue and profitability.

Material Covenants

None

Liquidity position: Adequate

The firm has adequate liquidity profile marked by moderate net cash accruals as against no significant debt obligations. The firm generated cash accruals of Rs. 2.68 crore for FY2019, while there are no significant debt obligations for the same period. The cash accruals of the firm are estimated to remain around Rs. 3.46 crore to Rs. 5.53 crore during FY2020-22 against repayment obligations of around Rs. 0.14 crore in FY2020. SKI's working capital operations are moderate marked by gross current asset (GCA) of 114 days for FY2019. The group maintains unencumbered cash and bank balances of Rs. 0.19 crore as on 31 March, 2019. The current ratio stood at 1.15 times as on 31 March, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate net cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite 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	FY19(Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	47.74	41.57	31.19
EBITDA	Rs. Cr.	3.13	2.41	2.05
PAT	Rs. Cr.	1.78	0.99	1.23
EBITDA Margin	(%)	6.56	5.80	6.57
PAT Margin	(%)	3.72	2.39	3.94
ROCE	(%)	17.92	13.16	16.87
Total Debt/Tangible Net Worth	Times	0.62	0.85	0.51
PBDIT/Interest	Times	5.43	4.28	9.28
Total Debt/PBDIT	Times	1.54	2.42	1.70
Gross Current Assets (Days)	Days	114	128	96

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 sector - <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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-November-2018	Cash Credit	Long term	4.95	ACUITE BB/Stable (Assigned)
	Proposed Cash Credit	Long term	3.05	ACUITE BB/Stable (Assigned)
	Proposed Cash Credit	Long term	2.00	ACUITE BB/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.95	ACUITE BB/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.05	ACUITE BB/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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