Kwik Patch Limited

April 29, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	1.20	**SMERA BB+ / Stable / Assigned**
Term Loans	2.35	
Export Packing Credit	1.95	**SMERA A4+ / Assigned**
Letter of Credit	0.75	

SMERA has assigned a rating of **'SMERA BB+' (read as SMERA Double B plus)** to the Rs. 3.55 Crore long term facility and 'SMERA A4+' (read as SMERA A four plus) to the Rs. 2.70 Crore short term facility of Kwik Patch Limited (KPL). The outlook is **'Stable'**. The ratings assigned to Kwik Patch Limited (KPL) derives support from the extensive experience of the promoters in the auto ancillary industry, long standing presence of KPL in the tyre and tube patch segment, diversified product portfolio, diversified geographic base and moderate financial profile marked by moderate gearing and comfortable coverage indicators. However, the ratings are constrained by the small scale of operations, high utilization of working capital facility, limited track record in the sport glove segment as it has not yet witnessed one complete business cycle, customer concentration in the sport glove segment, negative outlook of automobile industry, risk of commodity price volatility and foreign exchange fluctuation risk, thereby impacting the profit margins.

KPL's operations are considered small in size despite being in operations since 1985. KPL's core product is tyre and tube repair materials. KPL has diversified its revenue stream by entering into sport gloves manufacturing business in FY 2010 which has enabled KPL to grow its revenue by 89% and 41% in FY 2012 and FY 2011, respectively. However, due to the addition of sport gloves in its product base, there has been a decrease in revenue from tyre and tube repair materials, which has been KPL's core product. KPL is subjected to customer concentration risk in the sport gloves segment as its export revenues are primarily derived from single customer.

The company has long standing presence of around 28 years in the tyre and tube patch segment. KPL exports to countries in Middle East and South East Asia, USA, France, etc. and export sales constitute to around 75% of the total sales. KPL has also been approved as a sole supplier to the complete range of Michelin repair materials & accessories for the South and Western Part of India and its customer base includes reputed companies like MRF Limited and Sundaram Industries Limited. KPL also imports around 35% of its raw material purchases from USA.

KPL's profit margins have fluctuated in the past five years on account of expansion of product base as well as volatility in commodity prices. Net profit margin had declined from FY 2008 to FY 2011; thereafter it has improved in FY 2012 due to gradual growth in scale of its operations with resultant economies of scale. Around 35% of its material requirement is imported and around 75% of its sales are exported. KPL is exposed to foreign exchange fluctuation risk as it doesn't hedge or enter into any forward contract, which may impact its operating margins.

KPL has already booked revenue of Rs. 22.68 crores during the 9 monthly period of April to December, 2012 as per its provisional financials. The financial profile of the company is moderate. The total debt equity ratio of the company has improved from 2.04 as on 31/Mar/2011 to 1.83 as on 31/Mar/2012 and so has the interest coverage ratio from 2.85 in FY 2011 to 3.34 in FY 2012.

Outlook: Stable

The stable outlook reflects the expectation of a further improvement in KPL's financial risk profile on account of the benefit that the company is likely to derive from the capacity expansion in tyre and tube repair materials, no debt funded expansion plan on the horizon, promoter's rich experience in auto ancillary industry and long standing business relations in the tyre and tube segment. However, company's ability to improve its margin, maintain high capacity utilization level and retain comfortable liquidity position remains the key rating sensitivities.

About Kwik Patch Limited

KPL was incorporated as a Private Limited Company in the year 1985 in the name of Pang Rubber Products Private Limited. Later in the year 2000, the constitution of the Private Limited Company was changed to Public Limited Company and name was changed to Kwik Patch Limited. The Company is a joint venture with Patch Rubber Company (USA) which is a division of the Myers Industries of USA and is engaged in manufacturing of tyre, tube & stem patches, tyre chemicals, strings, monofils and sport gloves. KPL caters mainly to the auto ancillary companies in India and to the overseas market as well.

KPL has its administrative office at Guindy, Chennai, its tyre, tube & stem patches and repair materials manufacturing unit is located at Maarg and Athipet (Chennai) and in Satara (Maharashtra) and its gloves and strings manufacturing unit at Chengalpet (Chennai).

Mr. Srinath Rajam, Chairman & Managing Director, and his team are qualified and have rich experience in the field of tyre and tube repair materials.

For FY 2012, KPL reported a net profit of Rs. 0.91 crores on a total income of Rs. 25.85 crores as against a net profit of Rs. 0.41 crores on a total income of Rs. 18.08 crores for FY 2011.

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