

Press Release

H K Enterprises

December 12, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 135.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 135.00 crore bank facilities of H K Enterprises (HKE). The outlook is '**Stable**'.

Mumbai based, HKE is a partnership firm established in 2010 for trading of imported dry bulk commodities such as coke and coal. The partners of the firm are Mr. Sawarmal Hisaria and Mr. Sandeep Hisaria. The firm imports Coal & Coke from South Africa, Indonesia & Australia, Russia & USA.

Analytical Approach

Acuite has consolidated the business and financial risk profile of A T Trade Overseas Private Limited (ATOPL), H K Enterprises (HKE) and Ameet Enterprises (AE) together referred to as the 'Hisaria Group' (HG). The consolidation is in view of the similar line of business and common promotor family. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

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

The group was founded in 1964 by Mr. Sawarmal Hisaria, thus; has an operational track record of over five decades. The group started the business with trading of textile. Later in 1997, sons of Mr. Sawarmal Hisaria - Mr. Sandeep Hisaria and Mr. Sangeet Hisaria joined the family business and diversified the group activities into trading of imported bulk commodities comprising of coal (coking and non-coking), shredded scrap, heavy melting scrap, billets, pellets, sponge iron, iron ores and textile products among others. The established operational track record has helped the group maintain long standing relations with customers and suppliers. The group benefits from its experienced promoters who collectively possess around four decades of experience in the coal trading industry. Acuite believes that the group will sustain its existing business profile on the back of its established track record and experienced management.

- **Optimal management of Letter of Credit**

The group purchases its raw materials, which is backed by Letter of Credit (LC), which keeps liquidating in tranches from 90 - 270 days. The LC payment is made from the sales proceeds which is received in tranches. The group follows a methodically of accumulating the sale proceeds in form of Fixed Deposits for retirement of LCs. The total Letter of Credit (LC) outstanding as on 31 March 2019 stood at Rs. 241.35 crore which is supported by Fixed Deposit (FD) of Rs. 327.34 crore as on 31 March 2019. Further, there is no major bunching of LC's during the year. Also, it is observed that there are no intergroup transactions. Acuite believes that group's financial discipline for retirement of LCs is expected to support its cash flow management in an effective manner.

- **Healthy financial risk profile**

The financial risk profile of the group stood healthy marked by healthy net worth, debt protection metrics and coverage indicators. The net worth of the group stood at Rs. 222.43 crore as on 31

March, 2019 (includes Rs. 49.88 crore of quasi equity) as against Rs. 199.61 crore (includes Rs. 49.88 crore of quasi equity) as on 31 March, 2018. The gearing (debt-equity) stood low at 0.14 times as on 31 March, 2019 as against 0.46 times as on 31 March, 2018. The total debt of Rs. 31.93 crore as on 31 March, 2019 mainly comprises Rs. 31.78 crore of unsecured loans and Rs. 0.14 crore of long term debt.

The coverage indicators are moderate marked by Interest Coverage Ratio (ICR) which stood at 2.26 times for FY2019 as against 3.38 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 1.37 times in FY2019 as against 0.53 times in FY2018. Further, the Total outside Liabilities to Tangible Net Worth (TOL/TNW) ratio stood at 1.60 times as on 31 March 2019 as against 1.86 times as on 31 March, 2018. Debt to EBITDA stood at 0.34 times for FY2019 as against 1.11 times for FY2018.

Acuite believes that the financial risk profile of the group will continue remain healthy in near to medium term on account of healthy accretion to reserves and comfortable debt protection metrics.

• **Healthy scale of operations**

HG's revenue has grown at a CAGR of ~18 percent from FY2017 to FY2019. The group has achieved revenue of Rs. 1546.48 crore (including interest income on FD of Rs. 43.18 crore) in FY2019 as against Rs. 1485.61 crore (including interest income on FD of Rs. 43.85 crore) in the previous year. The group has registered revenues of ~RS. 838.00 crore for the period April 2019-Nov 2019. Further, EBITDA margins stood at 5.66 percent for FY2019 as against 4.81 percent for FY2018. Profit after Tax (PAT) margins stood at 2.81 percent for FY2019 as against 3.24 percent for FY2018. Any sharp decline in operating revenues or profitability of the group will remain a key rating sensitivity factor.

Weaknesses

• **Profitability susceptible to fluctuations in foreign exchange rates**

The group's traded good purchase transaction is typically denominated in USD and is generally backed by 90-270 days of letter of credit. The group remains exposed to any adverse movement in foreign currency exchange rate. Any upward revision in the dollar-rupee exchange rate increases the purchase of goods. Though the group uses forwards to hedge its forex risk, the cover is taken based on management expectations on forex movement over a long duration of LC ranging from 90 to 360 days.

• **Competitive and fragmented nature of industry**

Coal trading is a highly competitive industry due to presence of multiple players along with low entry barriers which has resulted in intense competition from both organised as well as unorganised segments in the industry.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability
- Deterioration in working capital cycle.

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals to maturing debt obligations. The group generated cash accruals of Rs. 43.77 crore for FY2019 while its maturing debt obligations were Rs. 6.99 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs. 40.00 crore to Rs. 45.00 crore during 2020-22 against no repayment obligation for the same period. The group's LC retirement is made through FDs. The group maintains FDs from the sales proceeds received from customer in tranches. The group has FDs outstanding of Rs. 327.34 crore as on 31 March 2019 as against LC outstanding of Rs. Rs. 241.35 crore as on 31 March 2019. Thereby giving adequate repayment buffer. Further, there are no bunching of LC retirement in single month. The group has efficiently managed working capital operations marked by GCA days of 49

days for FY2019. The current ratio of the group stood healthy at 1.69 times as on March 31, 2019. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy Fixed Deposits against its LC retirement over the medium term.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the group registers higher- than expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant bunching of LC in any particular month and/or in case of negative gap in LC retirement and Fixed Deposits outstanding or in case of significant deterioration in financial risk profile or liquidity of the group.

About the Group

'Hisaria Group' (HG) comprises of three companies A T Trade Overseas Private Limited (ATOPL), H K Enterprises (HKE) and Ameet Enterprises (AE). The group was founded in 1964 and is promoted by Mr. Sawarmal Hisaria and family. The group started the business with textile trading. Then in 1997, sons of Mr. Sawarmal Hisaria - Mr. Sandeep Hisaria and Mr. Sangeet Hisaria joined the family business and diversified the group activities into trading of imported bulk commodities comprising of coal (coking and non-coking), shredded scrap, heavy melting scrap, billets, pellets, sponge iron, iron ores and textile products among others.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1546.48	1485.61	1111.12
EBITDA	Rs. Cr.	87.50	71.44	40.48
PAT	Rs. Cr.	43.53	48.10	36.92
EBITDA Margin	(%)	5.66	4.81	3.64
PAT Margin	(%)	2.81	3.24	3.32
ROCE	(%)	34.71	35.33	64.48
Total Debt/Tangible Net Worth	Times	0.14	0.46	0.31
PBDIT/Interest	Times	2.26	3.38	4.72
Total Debt/PBDIT	Times	0.34	1.11	0.73
Gross Current Assets (Days)	Days	49	34	129

About the Rated Entity - Key Financials (Standalone)

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	560.14	654.70	501.05
EBITDA	Rs. Cr.	38.18	32.56	28.12
PAT	Rs. Cr.	24.44	24.96	23.85
EBITDA Margin	(%)	6.82	4.97	5.61
PAT Margin	(%)	4.36	3.81	4.76
ROCE	(%)	61.36	55.00	81.75
Total Debt/Tangible Net Worth	Times	0.15	0.22	1.27
PBDIT/Interest	Times	2.79	3.35	6.64
Total Debt/PBDIT	Times	0.22	0.31	1.37
Gross Current Assets (Days)	Days	73	30	131

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 Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation of Companies- <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios and Adjustment- <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)

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	2.00	ACUITE BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00*	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3 (Assigned)

*Includes sublimit of Cash Credit to the extent of Rs. 10.00 crore.

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About Acuité Ratings & Research:

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