

## Press Release

### Wudtools

February 26, 2018

## Ratings

<b>Instrument / Facility</b>	<b>Amount (Rs. crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Fund based facilities- Cash Credit	12.00	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Assigned
<b>Total</b>	<b>12.00</b>		

**Details of Facilities are in Annexure 1**

### **Detailed Rationale**

The rating assigned takes into account the small scale of operations, leveraged capital structure, working capital intensive nature of operations along with susceptibility to foreign exchange fluctuations. The rating is further constrained by volatile nature of key raw material prices and partnership nature of constitution with withdrawal of capital in the past two years.

The rating, however, derives strength by the experienced promoters and long track record of the firm, profitable nature of operations, moderate debt protection metrics along with an established and diversified clientele.

Growth in scale of operation along with maintaining profitability, working capital management and withdrawal of capital by the partners are the key rating sensitivities.

### **List of Key Rating Drivers**

- Small Scale of operations
- Leveraged Capital Structure
- Working Capital Intensive Nature of Operations
- Susceptibility to Foreign Exchange Fluctuations
- Volatility in raw material prices
- Partnership nature of constitution and withdrawal of capital
- Competitive and fragmented industry with low entry barriers
- Experienced partners along with long track record
- Profitable operations

- Moderate Debt Protection Metrics
- Established & diverse clientele

## Detailed Description of Key Rating Drivers

### Key Rating Weaknesses:

#### **Small Scale of operations**

WT is a small player in the domestic tool manufacturing industry marked by total operating income of Rs.26.15 crore during FY17. The turnover has been increasing over the past few years, yet continues to remain small.

#### **Leveraged Capital Structure**

The firm has a leveraged capital structure marked by an overall gearing ratio of 1.98x. Out of the total debt of Rs.15.44 crore, Rs.6.74 crore is from partners, relatives and friends; however the same has not been subordinated to the banks. The firm does not have any term debt outstanding.

#### **Working Capital Intensive Nature of Operations**

The average utilisation of the company's fund based limits stood at 95% during the past 12 months ended December 2017. The firm generally holds inventory of 8 months and is able to avail a credit period of 3 months days from its suppliers whilst offering a credit period of around 5 months to its customers, resulting in a high cash conversion cycle of 266 days during FY17.

#### **Susceptibility to Foreign Exchange Fluctuations**

The firm procures around 30-35% of its raw material requirement from countries like Germany, Austria, Luxemborg etc. It does not have any exports in this entity nor does it follow any hedging practices, leading to profitability being susceptible to the depreciation of rupee. However, the same is mitigated to some extent due to the export sales made by its group entity.

## **Volatility in raw material prices**

The major raw material for WT is steel. Steel prices have exhibited considerable volatility in the past due to various reasons, which in turn may impact the profitability of WT.

## **Partnership Nature of constitution and withdrawal of capital**

WT, being a partnership firm, is exposed to the inherent risk of the capital being withdrawn at the time of personal contingency and the firm being dissolved upon the death/insolvency of the partners. Further, a partnership firm has restricted access to external funds. Also, the partners have withdrawn capital of around Rs.1.50 crore during the past two years.

## **Competitive and fragmented industry with low entry barriers**

The firm operates in an industry which is highly fragmented with presence of a large number of unorganized regional manufacturers. The intense competition in the industry is also driven by low entry barriers in terms of capital and technology requirements and limited product differentiation.

## **Key Rating Strengths**

### **Experienced partners along with long track record:**

WT was promoted in the year 1965 evidencing the long track record of the firm. The firm was originally promoted by Mr. Lokendra Sheth, who was later on joined by his son, Mr. Chaitanya Sheth, in 1999. The promoters have been associated with the firm for five decades which has enabled them to create and maintain relations with the customers and suppliers. Also, the partners have supported the operations by infusing funds in the form of capital or unsecured loans as and when required.

### **Profitable operations**

WT's operations continue to remain profitable during FY17 as the firm has been able to generate EBITDA and PAT of Rs.5.08 crore and Rs.1.68 crore respectively, as against Rs.4.21 crore and Rs.0.56 crore in FY16. The firm has been able to consistently generate an EBITDA of around 20%. PAT fell from Rs.1.08 crore in

FY15 to Rs.0.56 crore in FY16 on account of one time R&D expenses to the tune of Rs.1.01 crore.

### **Moderate Debt Protection Metrics**

WT's debt protection metrics stood moderate during FY17 marked by interest coverage of 1.99x and Total Debt/Gross Cash Accruals ratio of 7.96x.

### **Established & diverse clientele base**

At present, WT caters to various reputed companies from the tyre, aluminium and steel industries like Century Plywood, MRF Limited, TVS Srichakra Limited, Apollo Tyres Ltd, Ceat Limited, Hindustan Pencils Private Limited etc. The firm's top 5 clients contributed only 6% of the company's sales during FY17, reflecting low customer concentration risk as well.

### **Analytical Approach & Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **About the Company**

Incorporated in 1965 as a partnership firm, Wudtools (WT) initially catered only to the wood industry. Later on, with the growth in scale of operations and with its growing experience, the firm started catering to around 18 industries including the paper, tyre, plastic and packaging industries. Presently the firm is engaged in the manufacture of various types of cutting tools and blades like bias cutters, disc knives, auto skiver knives, vent trimming blades, steel cord blades etc. The firm's manufacturing facility is located at Latur, Maharashtra. The day-to-day affairs of the entity are presently looked after by the partners Mr. Lokendra Sheth and Mr. Chaitanya Sheth. The firm's group entity, Wudtools Exports, is engaged in the export of the same products to countries like Spain, Italy, Bangladesh, Germany, USA, Srilanka etc. This entity is mainly engaged in trading, wherein it procures the finished commodity from Wudtools and exports the same.

## Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	20.88	26.15
EBITDA	4.21	5.08
PAT	0.56	1.68
Total Debt	12.51	15.44
Tangible Networth	6.54	7.81
EBITDA Margin (%)	20.17	19.42
PAT Margin (%)	2.70	6.41
Overall Gearing Ratio (x)	1.91	1.98

Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

## Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Fund Based Limits-Cash Credit	Long Term	12.00	IVR BB/ Stable Outlook			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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## Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	NA	NA	NA	12.00	IVR BB/ Stable Outlook