

Press Release

Wudtools

July 09, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Fund Based Facilities- Cash Credit	12.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised from IVR BB- /Stable Outlook (IVR Double B minus with Stable Outlook)
	Total	12.00		

Details of facilities are in Annexure 1

Rating Rationale

The revision in rating is on account of the company's improvement in financial profile during FY19 (provisional). The rating derives strength from company's experienced promoters, its profitable operations and the well-established clientele. The rating however is constrained by the company's small scale of operations, leveraged capital structure, susceptibility to foreign exchange fluctuations, the stiff competition from other industry players and the risk of capital withdrawal. Operations growth, efficient management of working capital, maintaining its profitability and avoiding any capital withdrawals are the key rating sensitivities.

Detailed Description of Key Rating Drivers

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.

Improving Profitability

WT's profitability improved during FY19 (Provisional) as the firm has been able to generate EBITDA and PAT of Rs.8.26 crore and Rs.2.64 crore respectively, as against Rs.6.17 crore and Rs.1.47 crore in FY18. The firm has been able to consistently generate an EBITDA margin of around 20%.

Established & diverse clientele base

At present, WT caters to various reputed companies from the tyre, aluminium and steel industries like Owens Corning (India) Pvt Limited, MRF Limited, Monotech Agencies, JK Tyre and Industries Limited, A and S Tools and Services etc. The firm's top 5 clients contributed only 8% of the company's sales during FY18, reflecting low customer concentration risk as well.

Key Weaknesses:

Small Scale of operations

WT is a small player in the domestic tool manufacturing industry marked by total operating income of Rs.42.85 crore during FY19(Provisional). The turnover has been increasing over the past few years, yet it continues to remain small.

Leveraged Capital Structure

The firm has a leveraged capital structure marked by an overall gearing ratio of 1.89x. Out of the total debt of Rs.23.77 crore, Rs.8.33 crore is from partners, relatives and friends; however the same has not been subordinated to the banks.

Working Capital Intensive Nature of Operations

The average utilisation of the company's fund based limits stood at 98.95% during the 12 months ended February 19. 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 222 days during FY19(Provisional).

Susceptibility to Foreign Exchange Fluctuations

The firm procures around 30-35% of its raw material requirement from countries like Germany, Austria and Luxembourg. 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.

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 during the past 2 years of around Rs.2.50 crore. Any further withdrawal of capital will be a key rating sensitivity.

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.

About the company

Incorporated in 1965 as a partnership firm, Wudtools (WT) is engaged in manufacturing of various types of cutting tools and blades like bias cutters, disc knives, auto skiver knives, vent trimming blades, steel cord blades etc. The company, 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.

Liquidity

Liquidity is estimated to remain moderate given the modest level of cash accruals in the face of minimal term debt repayments. Further, current ratio being more than unity adds to liquidity comfort. However, average of utilisation of working capital limits is high at 98% during the past twelve months ended February 2019.

Financials (Standalone)
(Rs. Crore)

For the year ended / As on	31-Mar-18	31-Mar-19
	Aud	Prov
Total Operating Income	31.19	42.85
EBITDA	6.17	8.26
PAT	1.47	2.64
Total Debt	18.86	23.77
Tangible Net worth	9.29	12.55
EBIDTA Margin (%)	19.78	19.27
PAT Margin (%)	4.72	6.16
Overall Gearing ratio (x)	2.03	1.89

* Classification as per Infomerics' standards

Any other information: N.A
Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)				Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Cash Credit	12.00	IVR BB+/ Stable Outlook	IVR BB-/Stable Outlook (ISSUER NOT COOPERATING) May 23, 2019		IVR BB/Stabl e Outlook Feb 26, 2018	--
	Total	12.00					

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.

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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. 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

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook
					(Rs. crores)	
1	Long Term Fund Based (CC)	--	--	--	12.00	IVR BB+/Stable Outlook
Total					12.00	