

Press Release

Narula Tools International

September 12, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 6.00 crore bank facilities of **NARULA TOOLS INTERNATIONAL (NTI)**.

NTI was established in 1995 as a proprietorship firm by Mr. Manjit Singh Narula, and later converted into a partnership firm in 2011 along with two new partners Mr. Inderpal Singh Narula and Mr. Karanbir Singh Narula. The firm is engaged in the manufacturing of engineering goods including scaffolding accessories, metal products and industrial equipment. The manufacturing facility is located at Jalandhar, Punjab.

Analytical Approach

Acuité has considered standalone business and financial risk profile of NTI to arrive at the rating.

Key Rating Drivers

Strengths

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

The firm was incorporated in the year 1995 by Mr. Manjit Singh Narula and is engaged in manufacturing of engineering goods including scaffolding accessories, metal products and industrial equipment. The firm mainly caters to Middle East countries including Saudi Arabia, Kuwait, Qatar and Egypt and has established track record of more than two decades in the industry. The firm has established healthy relationship with customers and suppliers and is ably supported by second line of management.

Acuité believes that the firm will benefit from its established industry presence and extensive experience of the promoters in the engineering industry over the medium term.

Weaknesses

- **Below average financial risk profile**

The financial risk profile is below average marked by modest networth, high gearing (debt-to-equity) and below average debt protection metrics. NTI's tangible net worth has remained modest at around Rs.2.32 crore as on March 31, 2019 (Provisional). The networth levels have remained modest due to small scale of operations and low operating margins, which has resulted in limited accretion to reserves over the last three years through FY2019. Though the revenues of the company are expected to remain in the range of Rs.25.00 crore - Rs. 30.00 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves.

Acuité expects the networth to remain modest in the range of Rs.2.30 crore - Rs. 3.30 crore over the medium term, in the absence of any capital infusion by the promoters. The company has followed an aggressive financial policy in the past; the same is reflected through its peak gearing levels of 7.16 times as on March 31, 2016. The leverage levels continue to remain high at around 3.57 times as on March 31, 2019 (Provisional). The gearing, however, is expected to improve subsequently in the absence of any debt funded capex plans over the medium term.

The company, on the other hand, generated cash accruals in the range of Rs.0.26 crore - Rs. 0.36 crore over the last four years ended FY2019 (Provisional). The firm's export constitutes ~90 per cent of its total sales. The company does not enter into any forward contracts to hedge the forex exposure.

Acuité expects the financial risk profile to remain below average over the medium term on account of modest scale of operation with waffle thin margins to support it accretion to net worth and improve its debt protection metrics.

• **Working capital intensive nature of operation**

NTI's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 230 days as on March 31, 2019 (provisional). The company caters to overseas order and has to maintain adequate inventory of raw material and finished stock in order to cater to spot orders from customers. On the other hand, the company gets a limited credit period from its suppliers, leading to higher reliance on working capital limits. Further, it allows a credit period of ~60-90 days to its customers and also allows an extended period to acquire new clientele.

Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company to cater to spot orders and extended credit period offered to maintain customers.

Liquidity

NTI has weak liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.27 crore - Rs. 0.36 crore during the four years through 2016-19 with debt obligations in the range of Rs. 0.15 crore - Rs. 0.20 crore over the same period. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 230 in FY2019 (Provisional). The bank limits have been fully utilised over the last six months. The current ratio of the company stood moderate at 1.35 times as on March 31, 2019(Provisional).

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	17.95	19.63	26.61
EBITDA	Rs. Cr.	0.83	0.83	0.80
PAT	Rs. Cr.	0.04	0.03	0.03
EBITDA Margin	(%)	4.63	4.24	3.01
PAT Margin	(%)	0.20	0.15	0.12
ROCE	(%)	5.96	5.84	4.99
Total Debt/Tangible Net Worth	Times	3.57	3.58	4.00
PBDIT/Interest	Times	1.48	1.57	1.76
Total Debt/PBDIT	Times	9.97	8.92	9.67
Gross Current Assets (Days)	Days	230	177	154

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
09-April-2019	Pre Shipment Packing Credit	Short Term	6.00	ACUITE A4 (Indicative)
05-Feb-2018	Pre Shipment Packing Credit	Short Term	6.00	ACUITE A4 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Pre Shipment Packing Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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