

## Press Release

### Mech Choice Tools

November 12, 2018



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 10.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 10.00 crore bank facilities of Mech Choice Tools (MCT). The outlook is '**Stable**'.

The Jalandhar-based, MCT is a partnership firm established in 2017 by Mr. Keshav Shoor and Mr. Raghav Shoor along with Vishal Tools and Forgings Private Limited (VTFPL). VTFPL's Managing Director, Mr. Jyoti Prakash is the founding partners. The firm is engaged in manufacturing and exporting of hand tools. The proposed manufacturing facility is located at Dhogri Industrial Park (Jalandhar) with installed capacity of 1800 tonnes per annum. The commercial operations are expected to commence from April, 2019. The firm is expected to sell its products to International Chain Stores and Wholesale suppliers located in Europe and America. The raw material is expected to be procured from local suppliers located in Punjab.

### Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Mech Choice Tools and Vishal Tools & Forgings Private Limited for arriving at the rating.

### About the Group

The Jalandhar based, Vishal Group (VG) consists of Vishal Tools & Forgings Private Limited (VTFPL) incorporated in 1992 and Mech Choice Tools (MCT), a partnership firm established in 2017 promoted by Mr. Jyoti Prakash Shoor and family. VG is engaged in manufacturing, trading and exporting of hand tools. The group caters to the international chain stores and wholesale suppliers located in North American and European countries. The group has two manufacturing unit with total installed capacity of around 16 tonnes per day located in Jalandhar. Also, the group is setting-up a new unit under MCT with installed capacity of 1800 tonnes per annum. Presently, the group derives around 11 percent of its revenue from trading activity, 6 percent from scrap sales and remaining 83 percent from manufacturing activity.

### Key Rating Drivers

#### Strengths

- Established track record of operations and experienced promoters**

The Vishal group has operational track record of around twenty six years in the hand tool industry. The established position of the group has helped it to maintain long standing relations with reputed customers including Walmart Stores Inc., Harbor Freight Tools, among others. Further, the group also benefits from the extensive experience of the promoters of more than three decades in the hand tools industry.

- Healthy financial risk profile**

The Group has healthy financial risk profile marked by net worth of Rs.39.75 crore as on 31 March, 2018 (Provisional) as against Rs.27.34 crore as on 31 March, 2017. The group follows conservative gearing policy as the gearing stood at 0.05 times as on 31 March, 2018 (Provisional) as against 0.04 times in the previous year. Healthy interest coverage ratio stood at 36.73 times in FY2018 (Provisional) as against 49.01 times in the previous year. The total outside liabilities to tangible net worth stood at 0.81 times as on 31 March, 2018 (Provisional) against 0.96 times in the previous year. The group has also invested in liquid investments to the tune of Rs. 29.25 crore which is around 73 percent of the total tangible net worth as on 31 March, 2018 (Provisional).

- **Comfortable working capital cycle**

The group has a comfortable working capital cycle marked by a Gross Current Assets (GCA) of 95 days as on March 31, 2018 (Provisional) as against 68 days as on March 31, 2017. This is dominated by debtors of 43 days as on March 31, 2018 (Provisional) against 25 days as on March 31, 2017. The inventory stood at 17 days as on March 31, 2018 (Provisional) against 16 days as on March 31, 2017. Further, the working capital cycle is supported by liberal credit period of ~60-70 days from its suppliers.

### Weaknesses

- **Customer concentration risk**

The operations of the group are exposed to customer concentration risk as the group derives around 49 percent of the total revenue from single customer i.e. US based Wal-Mart Stores Inc. Hence, any changes in the procurement policy of the customer or regulations imposed by the government can adversely impact the operations of the firm.

- **Project Implementation Risk**

MCT is presently setting up a manufacturing unit in Jalandhar with installed capacity of around 1800 tonnes per annum. The total estimated project cost is around Rs.29.15 crore which is expected to be funded through equity of Rs.19.15 crore and term loan of Rs.10.00 crore. The firm has incurred around Rs.13.17 crore as on 31 March, 2018 (Provisional) which has been funded entirely through own funds and the financial closure of the debt portion of the project is still pending. The commercial operation is expected to commence from April 2019. Hence, the group is exposed to project implementation risk as the completion of the project within the estimated time and cost will be key rating sensitivity factor.

- **High competitive and fragmented nature of industry**

VG is mainly engaged in manufacturing of hand tools which is a highly fragmented industry with limited entry barriers. The industry is characterised by presence of large number of players in the unorganised sector thereby limiting the bargaining power with customers.

### Outlook: Stable

Acuité believes that VG will maintain a 'Stable' business risk profile over the medium term. The group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers significant and sustainable improvement in operating income while maintaining its profitability and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile.

### About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	88.35	78.27	70.03
EBITDA	Rs. Cr.	17.99	17.09	13.12
PAT	Rs. Cr.	10.65	10.01	7.76
EBITDA Margin	(%)	20.37	21.83	18.74
PAT Margin	(%)	12.05	12.79	11.08
ROCE	(%)	48.73	67.06	66.61
Total Debt/Tangible Net Worth	Times	0.05	0.04	0.17
PBDIT/Interest	Times	36.73	49.01	39.26
Total Debt/PBDIT	Times	0.10	0.06	0.22
Gross Current Assets (Days)	Days	95	68	92

### Status of non-cooperation with previous CRA (if applicable)

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable

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