

Press Release

Kumar Tools And Stampings

August 05, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	34.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	34.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.34.00 Cr. bank facilities of Kumar Tools and Stampings (KTAS). The outlook is '**Stable**'.

Reason for rating assigned

The rating assigned draws comfort from extensive experience of the promoters in the aforementioned industry along with longstanding relationship with its customers and suppliers. The rating also factors in the increase in scale of operations in FY 2022. However, the rating is constrained by the below average financial risk profile, working capital intensive nature of operations and the stretched liquidity position of the firm with higher reliance on short term borrowings.

About the Company

Kumar Tools and Stampings was incorporated in the year 2007 and is the manufacturer and exporter of jigs, fixtures, press tools and other metal components including textile machine parts and industrial hinge. The sole proprietor of the firm Kumar Tools & Stampings' is Mr. Rajkumar Samutrapande Nadar. The end user of the products is the auto industry. The firm has 2 facilities, 1 in Pune and 1 in Chennai.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of KTAS to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations.

KTAS is based out in Pune and was incorporated in the year 2007 reflecting an established

track record of operations for more than one decade in the line of business. The sole proprietor of the firm is Mr. Rajkumar Nadar. The operations of the firm are managed by the promoter as well as a team of experienced senior management personnel who are further ably supported by a strong line of mid-level managers. The extensive experience of the promoter has helped the firm in establishing long and healthy relationships with its customers and suppliers over the years. The firm has also started exporting to Belgium and Brazil from FY2021.

Acuité believes that the firm's existing business profile will improve over the medium term on the back of the experienced promoter and management.

Augmentation in the business risk profile

The revenue of the firm increased by ~40 percent and stood at Rs.112.32 crore in FY2022(Prov) compared to revenue of Rs.80.30 crore in FY2021. The increase in the revenues is majorly due to the increase in the demand for the products as well as higher price realization for the products. The operating profit margin of the firm increased to 6.86 percent in FY2022(Prov) compared against 6.64 percent in FY2021. The increase in the operating profit margin is due to the increase in the revenues. The PAT margin improved to 2.71 percent in FY2022(Prov) compared to 1.52 percent in FY2021.

Acuité believes that the business risk profile of the company will continue to improve on account of healthy demand for the products over the medium term.

Weaknesses

Working capital intensive operations

The firm's operations are working capital intensive as evident from Gross Current Asset (GCA) of 158 days as on March 31, 2022(Prov) as against 174 days as on March 31 2021. The inventory levels stood at 51 days for FY2022 compared against 25 days for FY2021. The company keeps the stock of raw materials in inventory to avoid shortage in materials. Raw materials inventory is kept for around 40 days and finished goods inventory is kept for around 7 days. The debtor days improved and stood at 109 days for FY2022(Prov) against 149 days for FY2021. The average debtors days are normally 80 days. The creditor days of the firm stood at 74 days for FY2022(Prov) as against 55 days for FY2021. The average debtors days are normally 80 days. The average utilization of the working capital limits of the firm remained high at ~96 percent in last six months ended June' 22.

Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Below average financial risk profile

KTAS has a below average financial risk profile marked by tangible net worth of Rs.9.03 crore as on 31 March 2022(Prov) as against Rs.6.04 as on 31 March 2021. The increase in the tangible networth is due to accretion of profits in reserves. The gearing level of the firm stood high at 3.68 times as on 31 March 2022(Prov) as against 3.70 times as on 31 March 2021. The total debt of the firm comprised of long term debt of Rs.14.15 crore and short term debt of Rs.14.96 crore as on 31 March 2022(Prov). The coverage ratios of the firm remained moderate with Interest Coverage Ratio (ICR) of 2.49 times for FY2022(Prov) as against 1.96 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 1.08 times for FY2022(Prov) against 0.96 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the firm stood at 5.95 times for FY2022(Prov) as against 6.99 times in FY2021.

Acuité believes that the financial risk profile of the firm is expected to improve over the medium term driven by reduction in overall debt levels and in the absence of any major debt funded capex in near to medium term.

Susceptible to fluctuations in raw material prices along with customer concentration risk

KTAS's operations are exposed to inherent risks associated with availability of raw materials and fluctuations in the raw materials cost. The raw material of the firm is received in the sheet form on which further processing is done. There is also a customer concentration risk present with the firm. However, the established relationship with clients and vendors, diversified

geographical presence and experienced management mitigates the risks to some extent.

Rating Sensitivities

Significant improvement in scale of operations and profitability margins.

Any major debt funded capex affecting the financial risk profile of the firm.

Any stretch in the working capital cycle leading to further increase of reliance on working capital borrowings and further stretch in the liquidity position.

Material covenants

None

Liquidity position:stretched

KTAS has a stretched liquidity position marked by low net cash accruals against its maturing debt obligations and higher bank limit utilization. The firm generated cash accruals of Rs.4.61 crore in FY22 compared against maturing debt obligations of Rs.4.04 crore over the same period. The cash accruals of the firm are estimated to remain in the range of Rs.6.93-10.21 crore during 2023-25 period while its matured debt obligations is estimated to be in the range of Rs.2.88 – 3.91 crore during the same period. The firm's reliance on working capital borrowings is also on a higher side marked by average utilization of working capital limits of ~96 percent during the last six months period ended June' 2022. The firm maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2022(Prov) and the current ratio also stood moderate at 1.23 times as on March 31, 2022(Prov).

Acuité believes that liquidity profile of the firm will improve in the medium term on account of moderate net cash accruals against low maturing debt obligations.

Outlook: Stable

Acuite believes that KTAS will maintain a stable "outlook" in the medium term and will continue to benefit over the medium term due to its experience management and healthy demand of its products in the market. The outlook may be revised to "Positive" if the company demonstrates substantial and sustained growth in its revenues and/or operating margins from the current levels while maintaining its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if company generates lower-than anticipated cash accruals thereby impacting its financial risk profile, particularly its liquidity.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	112.32	80.30
PAT	Rs. Cr.	3.05	1.22
PAT Margin	(%)	2.71	1.52
Total Debt/Tangible Net Worth	Times	3.68	3.70
PBDIT/Interest	Times	2.49	1.96

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

CRISIL, vide its press release dated June 14, 2022 had denoted the rating of Kumar tools and stampings as 'CRISIL B+; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Abhyudaya Cooperative Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB Stable Assigned
Abhyudaya Cooperative Bank	Not Applicable	Term Loan	Not available	Not available	Not available	13.00	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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