

Indian Knives and Tools Company

March 29, 2022

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5.50	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Facilities	5.50 (Rs. Five Crore and Fifty Lakhs Only)		

Detailed Rationale & Key Rating Drivers

Indian Knives and Tools Company (IKTC) has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE Ratings Ltd.'s rating on IKTC's bank facilities will now be denoted as '**CARE B; Stable; ISSUER NOT COOPERATING***'.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating assigned to the bank facilities of Indian Knives and Tools Company (IKTC) is constrained by small scale of operation coupled with low capitalization, highly leveraged capital structure and moderate debt coverage indicators and working capital intensive nature of its operation in FY21 (refers to the period from April 01 to March 31). The rating is further constrained by susceptibility of profitability to volatile raw material prices, cyclical nature of industry and high competition, constitution of the entity as proprietor firm with inherent risk of withdrawal of capital and project funding, execution and stabilization risk. The above constraints are partially offset by long track record of the entity along with experienced and resourceful promoter and healthy profitability margins.

Detailed description of the key rating drivers

At the time of last rating on May 10, 2021 the following were the rating strengths and weaknesses (updated from information available from client)

Key rating Weakness

Growing albeit small scale of operation coupled with low capitalization

Scale of operations continued to remain small marked by a TOI of Rs. 4.17 crore at the end of FY21 as compared to Rs. 3.82 crore at the end of the previous year.

Highly leveraged capital structure and moderate debt coverage indicators

Despite a marginal decline in overall debt and accretion of profits to reserves; capital structure of IKTC remains leverage marked by an overall gearing of 2.83x as on March 31, 2021 (P.Y.: 3.85x).

Debt coverage indicators remained moderate marked by stable profitability and interest costs. Interest coverage stood at 2.43x at the end of FY21 compared to 2.29x at the end of FY20. Whereas, TD/GCA improved marginally and stood at 4.94 years compared to 6.28 years in the previous year.

Working capital intensive nature of operations

Operations of the firm remained working capital intensive marked by a high inventory holding period which stood at 159 days at the end of FY21 compared to 177 days at the end of FY20. CC limit utilization remains close to 80% as per banker's feedback.

Susceptibility of profitability to volatile raw material prices

IKTC's majorly procures its raw material namely steel from local suppliers which constitute about 50-60% of the total operating cost of the company. Further prices of steel are highly volatile in nature, therefore the profitability margins of the entity, remains exposed to the raw material price fluctuation and volatility.

Cyclical nature of industry and high competition

IKTC operates in a highly competitive & fragmented industry with many organized players engaged in manufacturing of industrial cutting instruments namely Wood peeling knives, punching machine plates, sheet cutter, shear blades, paper cutting knives, plastic granulator blades, press break tools and any order as per customers specifications etc. However, the diversified product profile of IKTC reduces its dependence on any one product thereby increasing its ability to withstand cyclicity in the industrial cutting instruments industry.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE's publications

*Issuer did not cooperate; Based on best available information

Constitution of the entity as proprietor firm with inherent risk of withdrawal of capital

IKTC being a proprietorship entity, the risk associated with withdrawal of proprietor's capital exists. The entity is exposed to inherent risk of proprietor's capital being withdrawn at time of personal contingency as also it has limited ability to raise capital and poor succession planning may result in dissolution of entity. Due to the proprietorship constitution, it has restricted access to external borrowing where net worth as well as credit worthiness of proprietor is the key factors affecting credit decision of lenders.

Project funding, execution and stabilization risk

In order to meet the growing customer demand, IKTC has undertaken capacity expansion project to set up new manufacturing facility situated at MIDC, Lote Parshuram Industrial Area, Dhamandevi, Khed Distic, Ratnagiri, Maharashtra, wherein the existing old manufacturing facility located at Vasai, Palghar would be shifted to the new plant. The estimated project cost is Rs.8.13 crore which is towards purchase of land, construction of new building, procurement and up-gradation of plant & machinery along with capacity enhancement and other expense and same will be funded by way of term loan worth Rs.4.50 crore (not yet tied up) and cash credit worth Rs.1.60 crore from the bank and balance of Rs.2.03 crore would be by way owned funds promoters. Further this promoter had purchased land in 2015 and construction activity is completed upto plinth level and approx. Rs.0.50 crore is incurred toward the project and the same has been funded through owned funds. Further the trial period of commercial production is expected to be completed before December, 2021. Thus, going forward IKTC's ability to complete the project in timely manner without any cost and time overrun and subsequent stabilization of the same along with optimal utilization of the enhanced production capacities remains critical from credit perspective.

Key Rating Strengths

Long track record of the entity along with experienced promoter

Established in 1994, IKTC is promoted by Mr. Sunil Balkrishna Chalke, is (Bachelor of Science) with more than three decades of business experience in manufacturing of industrial knives. Thus, the long track record and comprehensive experience of promoter helped IKTC to develop business relationship with existing as well as new clients & have generated sizeable business on continual basis. Moreover, the promoters are resourceful and continuously infusing the funds in form of interest free unsecured loans into the business to support its growing operations

Fluctuating albeit healthy profitability margins

IKTC's operating profitability remained stable at 23.71% at the end of FY21 compared to 23.17% at the end of the previous year.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the firm

Indian Knives and Tools Company (IKTL), established in 1994 by Mr. Sunil Balkrishna Chalke, having more than three decades of experience in manufacturing and trading business of industrial cutting instruments. The entity procures required raw material namely steel, grinding wheels, abrasion resistance steel plate etc. from local suppliers. Further entity manufacturing various shapes, size, sharpness and thickness of industrial cutting instruments which find application mainly in paper and plastic industries and generated 100% of revenue from the domestic market only.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)	9MFY22(Prov.)
Total operating income	3.82	4.17	NA
PBILDT	0.88	0.99	NA
PAT	0.23	0.33	NA
Overall gearing (times)	3.85	2.83	NA
Interest coverage (times)	2.29	2.43	NA

A: Audited, Prov.: Provisional, NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure 3

Complexity level of various instruments rated for this firm: Please refer Annexure 4

Annexure-1: Details of Instruments/ Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Proposed fund based limits		-	-	-	4.50	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Proposed fund based limits		-	-	-	1.00	CARE B; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Proposed fund based limits	LT	4.50	CARE B; Stable; ISSUER NOT COOPERATING*	1)CARE B; Stable (10-May-21)	-	-	-
2	Fund-based - LT-Proposed fund based limits	LT	1.00	CARE B; Stable; ISSUER NOT COOPERATING*	1)CARE B; Stable (10-May-21)	-	-	-

*Issuer did not cooperate; based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - Not Applicable**Annexure 4: Complexity level of various instruments rated for this firm**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Proposed fund based limits	Simple

Annexure 5: Bank Lender Details for this firm

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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