

Press Release

Mastercraft Engineers Private Limited

May 31, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Reaffirmed; outlook revised from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 20.00 crore bank facilities of Mastercraft Engineers Private Limited (MEPL). The outlook has been revised to '**Negative**' from '**Stable**'.

The revision in the outlook is based on expectations of further slow-down in the revenues of MEPL, as is also reflected through lower than anticipated revenues and margins in FY2019 (Provisional) along with deterioration in working capital management. The inventory of the MEPL has increased to around 169 days as on March 31, 2019 (Provisional) as compared to 52 days as on March 31, 2018. The same is attributable to lower off-take by its key customers. Acuité believes any further deterioration in the operating metrics of MEPL will impart a downward bias to the rating.

MEPL, incorporated in 1991, is a Bengaluru-based company promoted by Mr. Sree Prakash Ramamirtham and Mr. Balakrishnan Srinivasan. MEPL is engaged in manufacturing of injection moulds and injection moulded plastic components. The company also undertakes job work for manufacturing injection moulded plastic components. MEPL mainly caters to automobile, electrical and consumer durables industry. MEPL is a Tier I manufacturer of moulds and injection moulded plastic components used in the automobile industry.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

MEPL is engaged in manufacturing of injection moulds and injection moulded plastic components. MEPL benefits from the experienced management, Mr. Sree Prakash Ramamirtham and Mr. Balakrishnan Srinivasan. Both the directors have Bachelor's degree in Engineering and possess around two decades of experience in the same line of business. Extensive experience of the management is reflected in the network of clients such as Exide Industries Limited, Toyota Boshoku Automotive Private Limited, Schneider Electric, Moriroku Technology Pvt. Limited, Aisin Automotive Karnataka Limited amongst others.

- **Moderate financial risk profile**

MEPL has a moderate financial risk profile marked by average net worth, healthy gearing and healthy debt protection metrics.

The net worth of MEPL stood at Rs. 13.46 crore as on 31st March, 2019 (Prov.) as against Rs. 12.96 crore in FY2018 on account of retention of profits. MEPL has followed conservative financial policy as reflected in the peak gearing of 0.80 times in the last three years. Gearing stood at 0.70 times as on 31st March, 2019 (Prov.) as against 0.80 times in the previous year. Total Outside Liabilities to Tangible Networth (TOL/TNW) stood at 2.25 times as on 31st March, 2019 (Prov.) as against 1.69 times in the previous year. Total debt of Rs.9.38 crore as on March 31, 2019 (Prov.) comprises of long term loans from bank of Rs.7.65 crore and short term working capital debt from bank of Rs.

1.73 crore. Interest coverage ratio (ICR) stood healthy at 3.74 times for FY 2019 (Prov.) as against 4.03 times in the previous year.

The Debt Service Coverage Ratio (DSCR) stood at 1.42 times for FY2019 (Prov.) against 1.75 times for FY2018. Debt/EBITDA stood moderate at 2.29 times as on March 31, 2019 (Provisional) as against 2.15 times as on March 31, 2018.

Acuité believes the financial risk profile of the company will continue to remain moderate on account of conservative financial policy.

Weaknesses

- **Decline in operating metrics**

MEPL reported operating income of Rs. 36.04 crore for FY 2019 (Provisional) as against Rs. 47.21 crore in FY 2018, registering a decline of ~23% in FY 2019. The modest scale of operations limits resilience to external shocks compared with larger players. The operations are expected to continue at relatively moderate levels. Further, MEPL recorded EBITDA margin of 11.31% in FY2019 (Provisional) as compared to 10.12 per cent in FY2018 and 13.37 percent in FY2017. The decline in profitability margins is attributed to fluctuation in raw material prices which the company has not been able to pass this on to its customers. Acuité believes the ability of MEPL to improve its operating measures will be a factor of key rating sensitivity.

- **Susceptibility of turnover to performance of automobile industry**

MEPL's turnover depicts a fluctuating trend as there is high dependence on automobile industry which contributes ~ 70 per cent of the revenue resulting in exposure to cyclical in automobile industry.

Liquidity Position:

MEPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. MEPL generated cash accruals of Rs.2.84-3.32 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.1.38-2.16 crore over the same period. The cash accruals of MEPL are estimated to remain in the range of Rs. 3.28-4.05 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 2.10-3.10 crore. MEPL's operations are working capital intensive as marked by gross current asset (GCA) days of 195 in FY2019 (Provisional). This has led to higher reliance on working capital borrowings; the cash credit limit in MEPL remains utilized at 80 percent during the last 3 months period ended April 2019. MEPL maintained unencumbered cash and bank balances of Rs. 0.37 crore as on March 31, 2019 (Provisional). The current ratio of MEPL stood low at 0.84 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of MEPL is likely to remain moderate over the medium term on account of moderate cash accruals and no debt funded capex plans over the medium term.

Outlook: Negative

Acuité believes that MEPL's credit profile will be impacted by moderation in operating income, margins and elongation of working capital cycle over near to medium term. The rating may be downgraded in case this moderation is continued in its operating performance thereby impacting its debt protection matrices. Conversely, the outlook may be revised to 'Stable' if MEPL is able to display higher than expected performance in terms of improvement in operating income and is able to diversify its client base while improving working capital cycle and maintaining capital structure and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	36.04	47.21	42.34
EBITDA	Rs. Cr.	4.08	4.78	5.66
PAT	Rs. Cr.	0.59	0.61	0.02
EBITDA Margin	(%)	11.31	10.12	13.37
PAT Margin	(%)	1.64	1.28	0.05
ROCE	(%)	7.57	9.25	11.97
Total Debt/Tangible Net Worth	Times	0.70	0.80	0.66
PBDIT/Interest	Times	3.74	4.03	4.36

Total Debt/PBDIT	Times	2.29	2.15	1.39
Gross Current Assets (Days)	Days	195	87	138

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Mar-2018	Term Loans	Long Term	6.68	ACUITE BBB-/Stable (Upgraded)
	Cash Credit	Long Term	3.25	ACUITE BBB-/Stable (Upgraded)
	Proposed Bank Facility	Long Term	9.47	ACUITE BBB-/Stable (Upgraded)
	Bank Guarantee	Short Term	0.30	ACUITE A3 (Upgraded)
	Letter of Credit	Short Term	0.30	ACUITE A3 (Upgraded)
15-Dec-2016	Term Loans	Long Term	10.08	ACUITE BB+/Stable (Reaffirmed)
	Cash Credit	Long Term	2.25	ACUITE BB+/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	6.98	ACUITE BB+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.60	ACUITE A4+ (Reaffirmed)
	Forward Contract	Short Term	0.09	ACUITE A4+ (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loans	Not Applicable	Not Applicable	Not Applicable	6.68	ACUITE BBB-/Negative (Rating reaffirmed and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE BBB-/Negative (Rating reaffirmed and outlook revised)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.47	ACUITE BBB-/Negative (Rating reaffirmed and outlook revised)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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