



SMERA RATINGS LIMITED

The Canara Workshops Limited (TCWL)

Rating
Rationale**November 18, 2015**

Facilities	Amount (Rs. Crore)	Ratings
Dropline Overdraft	7.60	SMERA B-/Stable (Reaffirmed)
Term Loan	0.09	SMERA B-/Stable (Reaffirmed)
Proposed Overdraft	0.56	SMERA B-/Stable (Reaffirmed)
Letter of Credit	1.60	SMERA A4 (Reaffirmed)
Bank Guarantee	0.50	SMERA A4 (Reaffirmed)

SMERA has reaffirmed the ratings of '**SMERA B-** (read as **SMERA B minus**)' and '**SMERA A4** (read as **SMERA A four**)' on the Rs.10.35 crore bank facilities of The Canara Workshops Limited (TCWL). The outlook is '**Stable**'. The ratings are constrained by the company's weak financial profile, decline in the profit margins and stressed liquidity position. The ratings also factor in the low capacity utilisation and muted revenue growth. However, the ratings derive comfort from the long track record of operations and experienced management.

Update

For FY2014-15, TCWL recorded operating income of Rs.23.32 crore. The company's operating profitability during the period was 0.26 per cent, lower than previous year which stands at 3.52 per cent owing to adverse movement in raw material prices. SMERA expects the company's profitability to remain the same during FY2015-16, owing to volatile raw material prices and limited bargaining power. The company's liquidity remains stretched marked by low cash accruals affecting the servicing of debt obligations.

Outlook: Stable

SMERA believes TCWL will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained improvement in profit margins while maintaining healthy revenue growth leading to further improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' with significant decline in cash accruals or deterioration in its working capital management leading to weakening of the financial risk profile, particularly liquidity.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.



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Rating Rationale

Rating Sensitivity Factors

- Scaling up of operations while maintaining healthy profit margins
- Improvement in liquidity through fund infusion
- Improvement in the financial profile

About the Company

TCWL, incorporated in 1943, is a Mangalore-based company promoted by the late Mr. Vaman Srinivas Kudva. The company manufactures leaf springs and related components used in commercial and passenger vehicles.

For FY2014–15, TCWL incurred net loss of Rs.4.21 crore on operating income of Rs.23.32 crore, as compared with net loss of Rs.0.34 crore on operating income of Rs.26.14 crore in the previous year. TCWL's net worth stood at Rs.5.29 crore as on March 31, 2015, as compared with Rs.6.30 crore a year earlier.

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