

### The Canara Workshops Limited: Upgraded

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

SMERA has upgraded the long term rating of '**SMERA B+**' (read as **SMERA B plus**) from 'SMERA B-' (read as SMERA B minus) and reaffirmed the short term rating of 'SMERA A4' (read as SMERA A four) on the Rs. 10.35 crore bank facilities of The Canara Workshop Limited (TCWL).

The rating upgrade is on account of improvement in profit margins and financial risk profile of the company. The ratings continue to derive comfort from the company's established track record of operations and extensive experience of the promoters. The ratings are however constrained by the moderate financial risk profile, small scale of operations and elongated working capital cycle.

#### Update

TCWL registered revenue of Rs.25.44 crore in FY2015-16 as against Rs.24.62 crore in FY2014-15. Further, the company has booked revenue of Rs.12 crore during the period April to September 2016 (provisional). TCWL's operating profitability improved in FY2015-16 to 9.10 per cent from 5.52 per cent in FY2014-15 due to efficient procurement of raw materials as well as decline in raw material prices.

TCWL has a moderate financial risk profile which improved in FY2015-16. The gearing stands at 1.96 times as on March 31, 2016 as against 2.41 times as on March 31, 2015. The interest coverage ratio has improved from 0.79 times for FY2014-15 to 1.56 times for FY2015-16. TCWL operates on an elongated working capital cycle of 179 days due to holding of inventory of finished goods. Since the company has six branches/stock depots and caters to the replacement market, it holds inventory of finished goods for a minimum of 90 days. However, the average working capital utilisation of dropline OD has been comfortable at around 88 per cent for the six months ended September 2016.

#### Outlook: Stable

SMERA believes that the company will maintain a stable outlook over the medium term due to an established dealer network and experienced management. The outlook may be revised to Positive if the turnover increases along with profitability. Conversely, the ratings may be revised to Negative if the revenues are lower than expected. Deterioration in the cash conversion cycle, profitability and change in financial profile may also entail a Negative outlook.

#### Rating Sensitivity Factors

- Improving scale of operations while maintaining stable margins
- Efficient working capital management

**Criteria applied to arrive at the ratings:**

- Manufacturing Entities

**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. The facility is equipped with rolling mill with capacity of 7,000 TPA and machining capacity of 7,200 TPA.

For FY2015-16, TCWL registered net profit of Rs.0.54 crore on operating income of Rs.25.44 crore, as compared with net loss of Rs.0.98 crore on operating income of Rs.24.62 crore in the previous year.

**Rating History**

Date	Facilities	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
18 Nov, 2015	Dropline Overdraft	7.60	SMERA B- (Reaffirmed)	-	Stable
	Term Loan	0.09	SMERA B- (Reaffirmed)	-	Stable
	Proposed Overdraft	0.56	SMERA B- (Reaffirmed)	-	Stable
	Letter of Credit	1.60	-	SMERA A4 (Reaffirmed)	-
	Bank Guarantee	0.50	-	SMERA A4 (Reaffirmed)	-
19 Nov, 2014	Term Loan I	0.40	SMERA B- (Assigned)	-	Stable
	Term Loan II	0.35	SMERA B- (Assigned)	-	Stable
	Cash Credit	7.00	SMERA B- (Assigned)	-	Stable
	Proposed Cash Credit	0.50	SMERA B- (Assigned)	-	Stable
	Letter of Credit	1.60	-	SMERA A4 (Assigned)	-
	Bank Guarantee	0.50	-	SMERA A4 (Assigned)	-

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## ABOUT SMERA

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