

Press Release

The Canara Workshops Limited

2 February, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.10.35 Cr.
Long Term Rating	SMERA B+/ Outlook: Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA B+**' (read as **SMERA B plus**) and **short term rating of 'SMERA A4'** (read as **SMERA A four**) on the Rs. 10.35 crore bank facilities of The Canara Workshops Limited. The outlook is '**Stable**'.

The Canara Workshops Limited (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.

Key rating drivers

Strengths

Experienced management and established track record of operations: The company is engaged in the manufacturing of leaf springs and related components used in commercial and passenger vehicles since 1943. The established operational track record has helped the company maintain long standing relations with customers and suppliers. The company benefits from its experienced management. Mr. Srinivas Kudva possesses around four decades of experience in the business.

Weaknesses

Average financial risk profile: TCWL has average financial risk profile marked by low net worth of Rs. 5.86 crore as on 31 March, 2017 compared to Rs. 5.83 crore as on 31 March, 2016. The gearing increased to 2.04 times as on 31 March, 2017 from 1.96 times as on 31 March, 2016. This is due to increase in unsecured loans and working capital funds. The total debt of Rs. 11.93 crore comprises term loan of Rs. 2.14 crore from banks, interest bearing unsecured loans from related parties of Rs. 2.62 crore and working capital funds of Rs. 7.17 crore as on 31 March, 2017. The Interest Coverage Ratio stood at 1.22 times in FY2017 as against 1.56 times in FY2016 mainly due to decline in profitability in FY2017. The net cash accruals stood at Rs. 0.37 crore as against repayment obligation of Rs. 0.02 crore in FY2017. Going forward, SMERA

expects the company to maintain its financial risk profile and improve its network in the absence of major debt funded capex plan.

Small scale of operations and low capacity utilisation: The company operates at small scale evident from its operating income of Rs. 23.23 crore in FY2017 as against Rs. 25.44 crore in FY 2016. Further, it has generated revenue of Rs. 18.77 crore during the period April-December, 2017 The facility is equipped with rolling mill with capacity of 7, 000 TPA and machining capacity of 7, 200 TPA. However, the company operates at around 30 percent capacity utilisation.

Susceptibility of margins to raw material price fluctuations: TCWL reported EBITDA margin of 6.52 percent for FY2017 as against 9.10 percent in the previous year. The margins of the company are susceptible to fluctuations in the raw material prices i.e. steel prices.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of The Canara Workshops Limited to arrive at the rating.

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 outlook may be revised to Negative if the revenues are lower than expected, deterioration in cash conversion cycle, profitability and change in financial profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	23.23	25.44	24.62
EBITDA	Rs. Cr.	1.51	2.32	1.36
PAT	Rs. Cr.	0.03	0.54	(0.98)
EBITDA Margin	(%)	6.52	9.10	5.52
PAT Margin	(%)	0.12	2.11	(3.98)
ROCE	(%)	8.23	11.57	3.73
Total Debt/Tangible Net Worth	Times	2.04	1.96	2.41
PBDIT/Interest	Times	1.22	1.56	0.79
Total Debt/PBDIT	Times	6.89	4.86	9.17
Gross Current Assets (Days)	Days	304	278	276

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
28-Oct, 2016	Dropline Overdraft	Long Term	7.60	SMERA B+/Stable (Upgrade)
	Term Loan	Long Term	0.09	SMERA B+/Stable (Upgrade)
	Proposed Secured Overdraft	Long Term	0.56	SMERA B+/Stable (Upgrade)
	Letter of Credit	Short Term	1.60	SMERA A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	SMERA A4 (Reaffirmed)
18-Nov-2015	Dropline Overdraft	Long Term	7.60	SMERA B-/Stable (Reaffirmed)
	Term Loan	Long Term	0.09	SMERA B-/Stable (Reaffirmed)
	Proposed Secured Overdraft	Long Term	0.56	SMERA B-/Stable (Reaffirmed)
	Letter of Credit	Short Term	1.60	SMERA A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	SMERA A4 (Reaffirmed)

19-Nov-2014	Term Loan	Long Term	0.40	SMERA B-/Stable (Assigned)
	Term Loan	Long Term	0.35	SMERA B-/Stable (Assigned)
	Cash Credit	Long Term	7.00	SMERA B-/Stable (Assigned)
	Proposed Cash Credit	Long Term	0.50	SMERA B-/Stable (Assigned)
	Letter of Credit	Short Term	1.60	SMERA A4 (Assigned)
	Bank Guarantee	Short Term	0.50	SMERA A4 (Assigned)

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	7.60	SMERA B+/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.60	SMERA A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4 (Reaffirmed)
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	0.65	SMERA B+/Stable (Reaffirmed)

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ABOUT SMERA

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