

## Press Release

### The Canara Workshops Limited

April 11, 2019

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 10.35 Cr.
<b>Long Term Rating</b>	ACUITE B/ Stable (Downgraded)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded the long term rating of '**ACUITE B**' (read as **ACUITE B**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the above mentioned bank facilities of The Canara Workshops Limited (TCWL). The outlook is '**Stable**'.

The downgrade in rating is on account of falling operating margins and modest growth in revenue. Further, TCWL has failed to meet Acuite projections.

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 7,200TPA.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of TCWL to arrive at the rating.

### Key Rating Drivers

#### Strengths

##### • Experienced management with long track record of operations

TCWL is engaged in the manufacturing of leaf springs, parabolic 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. Mr. Srinivas Kudva has more than three decades of experience in the auto component business. Acuite believes that extensive experience of the promoters and long track of operations will help the company maintain their business risk profile in the medium term.

#### Weaknesses

##### • Moderate financial risk profile

TCWL has moderate financial risk profile marked by low net worth of Rs. 4.94 crore as on 31 March, 2018 compared to Rs. 5.86 crore as on 31 March, 2017. The gearing increased to 2.57 times as on 31 March, 2018 from 2.04 times as on 31 March, 2017. This is due to increase in unsecured loans and long term debt. The total debt of Rs. 9.96 crore comprises term loan of Rs. 0.18 crore from banks, interest bearing unsecured loans from related parties of Rs. 2.67 crore and working capital funds of Rs. 7.09 crore as on 31 March, 2018. The Interest Coverage Ratio stood at 0.53 times in FY2018 as against 1.22 times in FY2017 mainly due to decline in profitability in FY2018. The net cash accruals stood at Rs. (0.61) crore as against repayment obligation of Rs. 0.02 crore in FY2018. Going forward, Acuite expects the company to maintain its financial risk profile and improve its net worth in the absence of major debt funded capex plan.

##### • Intensive working capital operations

The company has working capital intensive nature of operations marked by Gross Current Assets (GCA) of 302 days in FY2018 as against 304 days in the previous year. The intensive nature is due to the long stock holding period of 144 days in FY2018 as compared to 154 days in FY2017. However, collection period and creditor days also are on the higher side at 142 days and 78 days respectively in the FY2018. Moreover, working capital borrowings are almost fully utilised for last six months ended in February 2019. Acuite believes that improvement in working capital cycle would be the key rating sensitivity in the

medium term.

### Liquidity Position

TCWL has weak liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. (0.61) crore during 2017-18. The cash accruals of the company are estimated to remain around Rs.(0.20) – 0.15 crore during 2019-21. TCWL's operations are working capital intensive as marked by gross current asset (GCA) days of 302 in FY2018. This has led to increased reliance on working capital borrowings, the working capital limits in the company remains utilized at 99 percent during the last 12 months period ended February 2019. The company maintains unencumbered cash and bank balances of Rs.0.46 crore as on March 31, 2018. The current ratio of TCWL stands at 1.31 times as on March 31, 2018. TCWL is not likely to incur any major capex in the near to medium future. Acuite believes that the liquidity of the company is likely to remain weak over the medium term on account of low cash accruals.

### Outlook: Stable

Acuite believes that the outlook on TCWL will remain 'Stable' over the medium term on account of the experienced management and reputed client base in the industry. The outlook may be revised to 'Positive' if the group registers growth in profitability margins while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of further deterioration of its financial risk profile due to higher than expected working capital requirements or delays in commencement of operations of TCWL.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	23.65	23.23	25.44
EBITDA	Rs. Cr.	0.59	1.51	2.32
PAT	Rs. Cr.	(0.92)	0.03	0.54
EBITDA Margin	(%)	2.51	6.52	9.10
PAT Margin	(%)	(3.90)	0.12	2.11
ROCE	(%)	3.23	9.41	27.18
Total Debt/Tangible Net Worth	Times	2.02	1.68	1.60
PBDIT/Interest	Times	0.53	1.22	1.56
Total Debt/PBDIT	Times	12.80	5.68	3.97
Gross Current Assets (Days)	Days	302	304	278

### 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
02-Feb-2018	Dropline Overdraft	Long Term	7.60	ACUITE B+/Stable (Reaffirmed)
	Letter of Credit	Short Term	1.60	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Proposed Overdraft	Long Term	0.65	ACUITE B+/Stable (Reaffirmed)
28-Oct-2016	Dropline Overdraft	Long Term	7.60	ACUITE B+/Stable (Upgraded)
	Term Loan	Long Term	0.09	ACUITE B+/Stable (Upgraded)
	Proposed Overdraft	Long Term	0.56	ACUITE B+/Stable (Upgraded)
	Letter of Credit	Short Term	1.60	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	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
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B/Stable (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.10*	ACUITEA4 (Reaffirmed)
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B/Stable (Downgraded)

\*Rs.0.50 crore Letter of Credit facility interchangeable with Bank Guarantee.

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### About Acuité Ratings & Research:

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