



## Press Release

### Cm Envirosystems Private Limited

October 13, 2017

### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs. 15.00 Cr.
<b>Long Term Rating</b>	SMERA BB- / Outlook: Stable
<b>Short Term Rating</b>	SMERA A4+

\* Refer Annexure for details

### Rating Rationale

SMERA has downgraded long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 15.00 crore bank facilities of Cm Envirosystems Private Limited. The outlook is '**Stable**'.

CM Envirosystems Private Limited (CMEPL), incorporated in 1981 is a Bangalore-based company engaged in the manufacture of environmental test chambers. The day-to-day operations are led by Mr. Prajwal Crasta, Director and CEO. The company caters to Hindustan Aeronautics Limited, Tata Motors, Bosch and also exports its products to USA, UK, UAE and other countries.

### Key Rating Drivers

#### Strengths

- **Experienced management**

CMEPL benefits from its experienced management. The promoters, Dr. Jacob Crasta, Ms. Rita Crasta and Mr. Prajwal Crasta possess more than three decades of experience in the light engineering industry. The promoters have been able to forge long term relations with customers and suppliers.

#### Weaknesses

- **Foreign exchange fluctuation risk**

The company is exposed to foreign exchange fluctuation risk as it generates around 18 per cent revenue from exports.

- **Declining profit margins**

The operating margins declined from 17.14 per cent in FY2014-15 to 15.26 per cent in FY2015-16. In FY2016-17 (Provisional), the margins further declined to 10.26 per cent. This was on account of increase in employee costs. (The company hired a Chief Technical Officer from Italy at a cost of Rs.1.35 crore in FY2016-17).

- **Below average financial risk profile**

The financial risk profile is below average marked by low net worth of Rs.4.17 crore as on 31 March, 2017 (Provisional) compared to Rs.3.81 crore in the previous year. The gearing (debt-equity) stood high at 2.61 times as on 31 March, 2017 (Provisional) as against 2.43 times as on 31 March, 2016. The total debt of Rs.9.98 as on 31 March, 2017 (Provisional) comprises long term debt of Rs.1.48 crore and working capital funding of Rs.8.50 crore. The interest coverage ratio deteriorated from 2.82 times in FY2014-15 to 1.78 times in FY2015-16 while DSCR declined from 1.40 times in FY2014-15 to 1.15 times in FY2015-16. As per FY2016-17 (Provisional), the ICR stood at 1.57 times and DSCR at 0.96 times. The NCA/TD stood at 0.07 times for FY2016-17. SMERA believes that the declining cash accruals will continue to weigh down on the financial risk profile of the company.

### • Working capital intensive operations

CMEPL has working capital intensive operations marked by high Gross Current Asset (GCA) days of 229 as on 31 March, 2017. This is mainly on account of high inventory and debtor days which stood at 95 and 134 respectively for FY2016-17. More than 50 per cent of the debtors out of the total debtors of Rs.7.86 crore as on 31 March, 2017 are outstanding for more than six months. Further, the working capital facility utilisation has been around 95 per cent for the last three months ending July, 2017.

### • Moderate scale of operations

The management has adopted a cautious approach to growth resulting in modest scale of operations. Further, the company caters to a niche segment. The revenue stood at Rs.21.44 crore for FY2016-17 (Provisionals) as against Rs.16.64 crore for FY2015-16.

### Analytical Approach

SMERA has considered the standalone business and financial risk profile of CMEPL.

### Outlook: Stable

SMERA believes that CMEPL will maintain a Stable outlook owing to its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in revenue while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of lower accruals or deterioration in the working capital impacting liquidity.

### About the Rated Entity - Key Financials

For FY2015-16, CMEPL reported profit after tax (PAT) of Rs.0.32 crore on operating income of Rs.16.64 crore, compared with PAT of Rs.0.75 crore on operating income of Rs.13.81 crore in FY2014-15. The net worth stood at Rs.3.81 crore as on 31 March, 2016 compared to Rs.4.38 as on 31 March, 2015. As per provisional financials for FY2016-17, CMEPL reported PAT of Rs.0.66 crore on operating income of Rs.21.44 crore.

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

None

### Any other information

None

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Jun-2016	Cash Credit	Long Term	INR 6.5	SMERA BB / Stable
	Standby Line of Credit	Long Term	INR 0.75	SMERA BB / Stable
	Term Loan	Long	INR 2	SMERA BB / Stable

	Bank Guarantee	Short Term	INR 2	SMERA A4+
	Proposed Bank Guarantee	Long Term	INR 3.75	SMERA BB / Stable
18-Aug-2015	Cash Credit	Long Term	INR 8	SMERA BB / Stable
	Proposed Cash Credit	Long Term	INR 1.25	SMERA BB / Stable
	Standby Line of Credit	Long Term	INR 0.75	SMERA BB / Stable
	Proposed Long Term Loan	Long Term	INR 3	SMERA BB / Stable
	Bank Guarantee	Short Term	INR 2	SMERA A4+

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.28	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.22	SMERA BB- / Stable

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**ABOUT SMERA**

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