

Press Release

CM Envirosystems Private Limited

November 16, 2018



Rating Downgraded & Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from **ACUITE BB-** (**read as ACUITE double B minus**) and short term rating to '**ACUITE A4**' (**read as ACUITE A four**) from **ACUITE A4+** (**read as ACUITE A four plus**) on the Rs. 14.24 crore bank facilities and has assigned the long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.0.76 crore bank facilities of CM Envirosystems Private Limited (CMEPL). The outlook is '**Stable**'.

The rating downgrade reflects stagnant scale of operations and stretch in working capital management. The revenues have remained at Rs.22.99 crore in FY2018 as against Rs.21.61 crore in FY2017. However, the company has registered loss of Rs.0.52 crore in FY2018 as against profit of Rs.0.35 crore in FY2017. Further, the working capital cycle remains high with Gross Current Assets (GCA) marked by 257 days in FY2018 as against 259 in FY2017. Stagnant revenues, declining profitability and stretch in working capital management exert pressure on the margins and liquidity. However, the ratings continue to factor in the promoter's experience and healthy clientele.

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 and also exports its products to USA, UK, UAE and other countries.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the CMEPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

CMEPL benefits from its experienced management. The promoters, Mr. Praveen Crasta (CEO), 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. It caters to both private entities such as Thirukkurungudi Vengaram Sundram (TVS), Mercedes, Audi, Honeywell as well as government entities such as Bharat Heavy Electricals Limited (BHEL), Hindustan Aeronautics Limited (HAL), Defence Research and Development Organisation (DRDO), Bharat Dynamics, to name a few. At present, the company has an unexecuted order book position of Rs.23.05 crore which is to be executed by FY2019. Acuité believes that CMEPL continues to enjoy the synergies from the experienced management and regular orders from reputed clientele.

Weaknesses

- **Intensive working capital operations**

CMEPL has intensive working capital operations marked by high Gross Current Assets (GCA) of 257 days in FY2018 as against 259 days in FY2017. The company maintains inventory of around 90 to 95 days on an average and extends clean credit of around 40 to 90 days to its customers which gets further extended due to delayed payments, resulting in high GCA days. The inventory and debtor levels stood at 93 days and 142 days in FY2018 as against 83 days and 125 days in FY2017, respectively. As a result, the average utilisation of bank limits stood at more than 80 percent in the last six months ending October 31, 2018. Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of the operating cycle, credit terms to offer and the inventory levels to maintain for the business volumes to sustain.

- **Below-average financial risk profile**

The financial risk profile is marked by high gearing and total outside liabilities to tangible net worth (TOL/TNW) and average debt protection metrics. The gearing has stood high at 2.26 times as on March 31, 2018 as against 2.24 times as on 31 March, 2017. TOL/TNW is high at 4.05 times as on 31 March, 2018 as against 3.29 times as on 31 March, 2017. Deterioration in the TOL/TNW is owing to additional term loan and unsecured loan raised to the tune of Rs.0.34 crore and Rs.1.75 crore respectively and decline in the net worth due to losses. CMEPL's networth is modest at Rs.4.75 crore as on 31 March, 2018, deterioration from Rs.5.05 crore as on 31 March, 2017. The modest revenue levels coupled with declining operating margins have resulted in average debt protection measures. Interest Coverage Ratio (ICR) deteriorated to 1.52 times in FY2018 from 1.96 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.05 times as on 31 March, 2018 as against 0.09 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) deteriorated to 1.01 times in FY2018 from 1.16 times in FY2017. Acuité believes that the financial risk profile is expected to be at similar levels owing to weak profitability and stagnant revenues.

- **Modest scale of operations**

The company reported weak revenue growth of ~6 percent with operating income of Rs.22.99 crore in FY2018 as against operating income of Rs.21.61 crore in FY2017. The revenues remained stagnant in FY2018 due to spill over of orders to the next fiscal. The revenues registered for the period April to October, 2018 is Rs.12.98 crore. However, the growth in revenues is expected to be around 20 percent and intensive working capital operations remains key sensitive rating factor. The margins are deteriorating as operating margins have declined to 9.79 percent in FY2018 from 10.29 percent in FY2017. Lower volumes and dip in margins lead to CMEPL reporting loss of about Rs.0.52 crore in FY2018. Improvement in the revenues and profitability are the key rating sensitivity factors over the near term.

Outlook: Stable

Acuité believes that CMEPL will maintain a 'Stable' outlook over the medium term from the industry experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in CMEPL's operating income or profitability, while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.99	21.61	16.64
EBITDA	Rs. Cr.	2.25	2.22	2.54
PAT	Rs. Cr.	-0.52	0.35	0.32
EBITDA Margin	(%)	9.79	10.29	15.26
PAT Margin	(%)	-2.28	1.61	1.93
ROCE	(%)	7.72	11.82	34.19
Total Debt/Tangible Net Worth	Times	2.61	2.24	2.43
PBDIT/Interest	Times	1.52	1.96	1.78
Total Debt/PBDIT	Times	5.16	4.65	3.52
Gross Current Assets (Days)	Days	257	259	320

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
13-Oct-2017	Cash Credit	Long Term	8.50	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
	Term Loan	Long Term	1.28	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.22	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
22-Jun-2016	Cash Credit	Long Term	6.50	ACUITE BB / Stable (Reaffirmed)
	Standby Line of Credit	Long Term	0.75	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Guarantee	Long Term	3.75	ACUITE BB / Stable (Assigned)
18-Aug-2015	Cash Credit	Long Term	8.00	ACUITE BB / Stable (Assigned)
	Proposed Cash Credit	Long Term	1.25	ACUITE BB / Stable (Assigned)
	Standby Line of Credit	Long Term	0.75	ACUITE BB / Stable (Assigned)
	Proposed Long Term Loan	Long Term	3.00	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Assigned)

***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 [^]	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.52	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Downgraded from ACUITE A4+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE B+ / Stable (Assigned)

[^]Includes sublimit of PCFC of USD 3.05 lacs

[^]EBRD of USD 3.79 lacs

[^]FDBP/FUBP of Rs.2.50 crore

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Saurabh Rane Analyst - Rating Operations Tel: 02249294044 Saurabh.Rane@acuiteratings.in	

About Acuité Ratings & Research:

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