

Press Release

CM Envirosystems Private Limited

September 27, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 17.00 Cr. (Enhanced from Rs.15.00 crore.)
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) and short-term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 17.00 crore bank facilities of CM ENVIROSYSTEMS PRIVATE LIMITED (CEPL). The outlook is '**Stable**'.

The rating upgrade is reflected by strategic change in the business, improvement in scale of operations and profitability. The company has changed its strategy towards export business by carrying out private labeling business to penetrate global markets. The revenues have increased to Rs.32.03 crore in FY2019 from Rs.22.99 crore in FY2018. Profit After Tax (PAT) has also increased to Rs.0.97 crore in FY2019 from net loss of Rs.0.52 crore in FY2018. Further, the operating margins have also increased to 10.15 per cent in FY2019 from 9.79 per cent in FY2018. The rating is further supported by the experience of the management and its established position in the industry.

CM Envirosystems Private Limited (CMEPL), incorporated in 1981 is a Bangalore-based company engaged in the manufacturing of environmental test chambers which are used for R&D and quality testing purpose. The day-to-day operations are led by Mr. Praveen 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.

Analytical Approach

Acuité has considered standalone business and financial risk profile of CEPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

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

• Modest scale of operations

The company has reported moderate revenue growth with compounded annual growth rate (CAGR) of around 21.74 per cent through last three years ended 31 March, 2019. The company reported revenue growth of ~39 per cent with operating income of Rs.32.03 crore in FY2019 as against operating income of Rs.22.99 crore in FY2018. The revenues have increased due to strategic changes in the company. The company have started with private labeling strategy in which they will be manufacturing products for other global companies. Further, the operating margins have increased to 10.15 per cent in FY2019 from 9.79 per cent in FY2018.

Acuité believes that the scale of operations is expected to increase at the back of order book of around Rs.15.00 crore to be executed within FY2020 and also at the back of the company's new strategy and its efforts towards penetrating global market.

Weaknesses

• Intensive working capital operations

CEPL has intensive working capital operations marked by high Gross Current Assets (GCA) of 214 days in FY2019 as against 257 days in FY2018. The whole manufacturing process takes around 4 to 5 months. Hence, the inventory and debtor levels stood at 48 and 157 days in FY2019 as against 93 and 142 days in FY2018, respectively. As a result, the average utilisation of bank limits stood at more than 80 to 90 percent in the last six months ending August, 2019.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of inventory maintenance and process time required to manufacture its products.

• Moderate financial risk profile

The financial risk profile is moderate marked by modest net worth and moderate debt protection measures and high gearing. Though the net worth has increased it has stood modest marked by Rs.4.28 crore as on 31 March, 2019 from Rs.2.89 crore as on 31 March, 2018. The gearing of the company though it has improved, it has stood high at 2.51 times as on March 31, 2019 as against 4.29 times as on 31 March, 2018. Total debt of Rs.10.75 crore in FY2019 includes long term borrowing of Rs.1.56 crore, unsecured loans of Rs.1.13 crore and working capital borrowing of Rs.8.06 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 4.98 times as on 31 March, 2019 as against 6.66 times as on 31 March, 2018. Interest Coverage Ratio (ICR) improved to 2.46 times in FY2019 from 1.52 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) improved to 0.18 times as on 31 March, 2019 from 0.05 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) improved to 1.58 times in FY2019 from 1.01 times in FY2018.

Rating Sensitivity

- Accomplishment of planned business strategies resulting into increase in scale of operations in the range of Rs.40.00 to 50.00 crore coupled with improvement in profitability.
- Deterioration in working capital operations marked by Gross Current Assets (GCA) days in the range of 250 to 300 days.

Material covenants

None

Liquidity Position

CEPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.93 crore in FY2019, Rs.0.59 crore in FY2018 and Rs.1.05 crore in FY2017, while its maturing debt obligations was Rs.0.94 crore in FY2019, Rs.0.69 crore in FY2018 and Rs.0.57 crore in FY2017. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 214 in FY 2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilized at ~80 to 90 per cent during the last 6 months' period ended August, 2019. The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2019. The current ratio of the company stood at 0.94 times as on March 31, 2019.

Acuite believes that the liquidity of the company is likely to improve at the back of healthy order book and strategic change.

Outlook: Stable

Acuité believes that CEPL 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 CEPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	32.03	22.99	21.61
EBITDA	Rs. Cr.	3.25	2.25	2.22
PAT	Rs. Cr.	0.97	(0.52)	0.35
EBITDA Margin	(%)	10.15	9.79	10.29
PAT Margin	(%)	3.01	(2.28)	1.61
ROCE	(%)	17.62	8.84	12.87
Total Debt/Tangible Net Worth	Times	2.51	4.29	4.27
PBDIT/Interest	Times	2.46	1.52	1.96
Total Debt/PBDIT	Times	2.98	5.16	4.65
Gross Current Assets (Days)	Days	214	257	259

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

None.

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
16-Nov-2018	Cash Credit	Long Term	8.50	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Term Loan	Long Term	0.52	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Downgraded from ACUITE A4+)
	Proposed bank facility	Long Term	0.22	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Proposed bank facility	Long Term	0.76	ACUITE B+ / Stable (Assigned)
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	Short Term	3.75	ACUITE BB / Stable (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	9.50 [^]	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ (Upgraded from ACUITE A4)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)

[^]Includes sublimit of PCFC of USD 3.05 lacs.

[^]EBRD of USD 3.79 lacs.

[^]FD/UBP (LC order) of Rs.2.50 crore.

[^]packing credit (running) of Rs.2.00 crore.

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About Acuité Ratings & Research:

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