

Press Release

09 May, 2017

CNC Automotive

Rating Assigned

Total Bank Facilities Rated *	Rs.13.00 Cr
Long Term Rating	SMERA BBB/ Outlook: Stable

Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (read as SMERA BBB) on the Rs. 13.00 crore bank facilities of CNC Automotive. The outlook is '**Stable**'.

CNC Automotive (CNC) a Bangalore-based partnership firm was established in 2001 by Mr Mahesh N Shah, Mr Vivek J Shah, and Mr Jayant N Shah. On 1st April, 2006, Mrs Pravina J Shah, Mrs Reena V Shah, Mrs Smita M Shah and Mr Jay M Shah joined in as partners. The firm is engaged in the manufacture of ready-to-use precision machined components for the automobile sector. The firm also manufactures cloth fibre at its manufacturing facility at Bangalore.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

CNC Automotive was established in 2001. The partners possess experience of over four decades in the said line of business.

- **Healthy growth in revenue**

CNC has exhibited healthy growth in revenue. The operating income for FY2016 stood at Rs. 85.07 cr as against Rs.77.33 cr in FY2015 and Rs.73.09 crore in FY2014. As informed by the management, the firm registered revenue of Rs.79.64 cr from April 2016 to December 2016 on account of increase in sales in the domestic as well as export markets.

- **Comfortable profitability**

For FY2016, CNC reported operating margin of 6.39 per cent as against 5.85 per cent in FY2015. The net profit margin stood at 2.25 per cent in FY2016 as against 2.48 per cent in FY2015.

- **Healthy financial risk profile**

The financial risk profile of CNC is healthy marked by low gearing and healthy coverage indicators. The gearing (debt to equity ratio) stood at 0.15 times as on March 31, 2016 as against 0.08 times as on March 31, 2015. The interest coverage ratio (ICR) stood at 15.16 times and debt service coverage ratio (DSCR) at 12.24 times in FY2016. The net worth is moderate and stood at Rs.14.99 cr as on March 31, 2016. Going ahead, the coverage indicators are expected to deteriorate due to its debt funded capex. However, the same is expected to remain at a comfortable ~6 times in FY2017 and FY2018.

- **Established relationships with its customer**

CNC generates around 95 percent revenue from its customer, BOSCH Limited Group. The firm has been dealing with BOSCH for the last 15 years.

- **Comfortable working capital cycle**

CNC has comfortable working capital cycle with gross current assets (GCA) of 85 days in FY2016 as against 68 days in FY2015. The inventory days stood at 16 while debtor days stood at 48 in FY2016. CNC gets liberal credit terms from suppliers with creditor days of 74 in FY2016. The average bank limit utilisation stood at ~46 per cent in the last six months ended December 2016.

Weaknesses

- **Debt fund capex**

CNC undertook capex in FY2017 at a total cost of Rs.10.00 cr to be funded by term loan of Rs.7.50 cr and the balance of Rs.2.50 cr through promoters contribution. The operations are expected to commence from April, 2017. The debt funded capex is likely to have negligible impact on the financial risk profile of the firm.

- **Intense competition in the fragmented auto components sector**

CNC is exposed to stiff competition from Karnataka Auto Components, Chaithanya Hightech Engineers, Karnataka Turned Components, Lamda Components as also from other firms in the area.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that CNC will maintain a 'Stable' outlook in the medium term and continue to benefit from its long track record of operations and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while also maintaining operating profitability. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-envisioned debt funded capex or increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, CNC reported net profit of Rs.1.91 cr on operating income of Rs.85.07 cr, as compared with profit after tax of Rs.1.92 cr on operating income of Rs.77.33 cr in FY2014-15.

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BBB/Stable
Term Loan	Not Applicable	Not Applicable	31-Mar-2021	4.00	SMERA BBB/Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BBB/Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BBB/Stable

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ABOUT SMERA

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