

Press Release
Maxwell Auto Components Private Limited
 November 20, 2018
Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.14.35 Cr.
Long Term Rating	ACUITE B/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE B**' (**read as ACUITE B**) to the Rs.13.35 crore bank facilities. Further, Acuité has also assigned the long term rating of '**ACUITE B**' (**read as ACUITE B**) to the Rs.1.00 crore bank facilities of Maxwell Auto Components Private Limited (MACPL). The outlook is 'Stable'.

Incorporated in 2011, MACPL is a Coimbatore based company engaged in manufacturing of grey iron and SG iron castings. The company started commercial operations from August 2013. The company has a foundry with an installed capacity of 750 metric ton per month for rough casting (liquid metal). The company caters to Pump, Hydraulic, General Engineering, Railways, and Automobiles (Two Wheeler, Four Wheeler - Car Passenger and Tractors Engineering). The day-to-day operations are managed by Mr. A Chandrasekaran.

The rating reaffirmation cogitate improvement in its revenues marked by healthy demand from the end-user segment. However, the same is constrained by decline in its profitability, tightly matching cash accruals for repayment obligations, and increasing need of working capital to meet the growing business volumes.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management**

Mr. A Chandrasekhar (Director) carries about three decades of experience in operations management. The company is also promoted by other Director, Mr. Saravanan Velu, who has over a decade of entrepreneurial experience.

The promoter's experience in auto ancillary business has helped the company build healthy relationship with its customers to ensure steady order flows. The operating income increased from Rs.32.7 crore in FY2016 to Rs.39.29 crore in FY2018 at a compound annual growth rate (CAGR) of 7 percent. The company has reported revenues of about Rs.23.00 crore in H1FY2019 and is expecting a modest growth of about 10 percent. Acuité believes that the promoters' extensive experience in casting industry would aid the business risk profile of the company over the medium term.

Weaknesses

- **Below-average financial risk profile ~ constrained by high TOL/TNW**

The financial risk profile is marked by moderate capital structure and moderate debt protection metrics. The net worth is modest at Rs.7.99 crore in FY2018 as against Rs.7.44 crore in FY2017, increase by Rs.0.55 crore. The growth was mainly due to accretion in reserves. The gearing has improved to 1.63 times as on March 31, 2018 from 2.14 times as on March 31, 2017 owing to term loan repayments. MACPL's cash accruals were just adequate in FY2018 at Rs.1.80 crore of repayment obligations. Moderate net cash accruals and debt has led to moderate NCA/TD and interest coverage ratio of 0.14 times and 2.24 times in FY2018 vis-à-vis 0.13 times and 1.95 times in FY2017, respectively.

With the expected increase in revenues, though cash accruals are expected to improve, the incremental working capital requirement is expected to exert pressure on the liquidity besides annual repayment obligations of about Rs.1.80 – 2.00 crore over the medium term. MACPL's total outside liabilities to total net worth (TOL/TNW) is high at 2.96 times in FY2018 as against 3.19 times in FY2017. MACPL's profitability margins are volatile; its operating margins have declined sharply from 13.3 percent in FY2017 to 9.1 percent in FY2018. Though the revenues are expected to improve, any sharp decline in the profitability is a key rating sensitivity factor. Acuité believes that with moderate profitability margins and no significant capex plans, the financial risk profile is expected to marginally improve over the medium term.

- **Working capital intensive operations**

The company has intense working capital operations as evident from its Gross Current Assets (GCA) of 190 days as on March 31, 2018 as against 247 days as on March 31, 2017. The company maintains 2 months inventory levels, and offers credit period of about two months to its clientele. However, the average receivables tend to be around 120 days for the past two years. Intense working capital management, increasing scale of revenues exerted pressure on the bank lines. The average bank limit utilisation over the past six months through October 2018 was about 90 percent, but in September and October the limits have been fully utilised and the account was overdrawn to the extent of interest debit at month end. Acuité believes that proper management of working capital while coping up with the growth in revenues is a key rating sensitivity factor over the near term.

Outlook: Stable

Acuité believes that MACPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability and higher-than-expected cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	39.29	28.44	32.70
EBITDA	Rs. Cr.	3.56	3.77	2.33
PAT	Rs. Cr.	0.25	0.10	-2.50
EBITDA Margin	(%)	9.06	13.26	7.11
PAT Margin	(%)	0.63	0.35	-7.63
ROCE	(%)	9.19	9.44	-2.32

Total Debt/Tangible Net Worth	Times	1.63	1.91	2.14
PBDIT/Interest	Times	2.24	1.95	1.13
Total Debt/PBDIT	Times	3.61	3.69	6.49
Gross Current Assets (Days)	Days	190	247	177

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>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-8.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. Crore)	Ratings/Outlook
16 th Oct 2017	Cash Credit	Long Term	5.75	ACUITE B/Stable (Assigned)
	Term Loan	Long Term	6.60	ACUITE B/Stable (Assigned)
	Proposed Cash Credit	Long Term	1.00	ACUITE B/Stable (Assigned)

***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	6.75	ACUITE B/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE B/Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE B/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Sri Hari 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
Sethu Madhav Analyst - Rating Operations Tel: 022-67141128 sethu.madhav@acuiteratings.in	

About Acuité Ratings & Research:

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