

Press Release

MICRO PRECISION

27 February, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

* Refer Annexure for details

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.14.00 crore bank facilities of Micro Precision. The outlook is '**Stable**'.

Micro Precision (MP), a partnership firm was established by Mr. D Magesh and Mrs. M. Sandhya in 1990. The firm specialises in the design and manufacture of precision machined assembly components for the defence sector. Having been in the industry for over 27 years, MP has extensive experience in the manufacture of defence equipments and has been closely associated with the indigenous submarine construction program for the past two decades. The firm manufactures critical assemblies for armored fighting vehicles such as T-72; T-90; ARJUN & BMP Tanks and engines. Also, MP has designed, developed and supplied valves (both manual & actuated) for nuclear submarines developed in India.

Key Rating Drivers

Strengths

Established track record of operations, experienced management

The Partner, Mr. D Magesh is a Mechanical Engineer with more than two decades of experience in engineered goods. Since 1990, MP has been supplying precision components to the Army and Navy. The firm sources its orders through tenders. The firm has in the past, supplied components for reputed projects such as the 'Arihant' submarine. The firm has been benefitting from repeat orders owing to the extensive experience of the firm in the line of business.

Weaknesses

Working capital intensive operations

The operations are working capital intensive with Gross Current Asset (GCA) days of 361 in FY2017 which increased from 273 days in FY2016. This is mainly due to high inventory days of around 248 days in FY2017, an increase from 177 days in FY2016. The debtor days increased in FY2017 to 101 days from 88 days in FY2016.

Uneven profit margins

The operating margins (EBITDA) of MP stood at 18.61 per cent in FY2017 compared to 10.70 percent in FY2016 and 15.42 percent in FY2015. The margins were mainly constrained in FY2016 due to the iterative process involved in development of new products. The net profit margins of MP stood at 3.31 per cent in FY2017 as compared to 0.69 per cent in FY2016.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of Micro Precision.

Outlook: Stable

SMERA believes that the outlook of Micro Precision will remain Stable in the medium term owing to its long track record of operations and experienced management. The outlook may be revised to 'Positive' in case the firm registers higher than expected revenue and profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower than expected profit margins or further increase in the working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	11.13	10.33	9.63
EBITDA	Rs. Cr.	2.07	1.11	1.48
PAT	Rs. Cr.	0.37	0.07	0.39
EBITDA Margin	(%)	18.61	10.70	15.42
PAT Margin	(%)	3.31	0.69	4.02
ROCE	(%)	12.53	7.30	21.44
Total Debt/Tangible Net Worth	Times	1.46	0.97	0.86
PBDIT/Interest	Times	1.69	1.43	2.21
Total Debt/PBDIT	Times	4.35	5.66	3.55
Gross Current Assets (Days)	Days	361	273	253

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: None

Applicable Criteria

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

Note on complexity levels of the rated instrument: <https://www.smera.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	NA	LT	NA	4.00	SMERA BB / Stable
Working Capital Demand Loan	NA	LT	NA	1.50	SMERA BB / Stable
Term Loan	NA	LT	NA	3.50	SMERA BB / Stable

Bank Guarantee	NA	ST	NA	4.55	SMERA A4+
Proposed	NA	LT	NA	0.45	SMERA BB / Stable

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in Salome Farren Rating Analyst Tel: 022-67141164 salome.farren@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.