

Press Release

Micro Precision

May 06, 2019



Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 17.00 Cr. (Enhanced from Rs.14.00 crore)
Long Term Rating	ACUITE BB/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 15.25 crore and assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.1.75 crore bank facilities of MICRO PRECISION (MP). The outlook is '**Stable**'.

Further, Acuité has also withdrawn long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 1.50 crore.

The Chennai based Micro Precision (MP), a partnership firm was established by Mr. D Magesh and Mrs. M. Sandhya in 1990. The firm specialises in the designing and manufacturing of precision machined assembly components for the defence sector. 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.

Analytical Approach

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

Key Rating Drivers

Strengths

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

The Partner, Mr. D Magesh has 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 this line of business.

Acuité believes that the firm will continue to benefit from its promoters' extensive industry experience and healthy relationship with customers over the long term.

- **Moderate financial risk profile:**

MP has moderate financial risk profile marked by net worth of Rs.6.43 crore as on March 31, 2018 as compared to Rs.6.29 crore as on March 31, 2017. The debt service coverage ratio (DSCR) stood moderate at 1.04 times as on March 31, 2018 as compared to 1.11 times as March 31, 2017. The total debt of Rs.9.12 crore as on March 31, 2018 includes long term borrowing of Rs.5.03 crore, short term borrowing of Rs.3.60 crore and unsecured loans from directors of Rs.0.49 crore. The total outstanding liabilities to total tangible net worth improved to 1.66 times as on March 31, 2018 as compared to 1.89 times as on March 31, 2017 primarily due to lower short term borrowing from bank. The interest coverage ratio decline marginally and stood at 1.66 times in in FY18 as compared to 1.69 times in FY17 due to decline in operating profit margins in FY18.

Acuité believes that higher than expected debt funded capex or lower utilisation of installed capacity will be critical to the credit risk profile of the MP.

Weaknesses

• **Working capital intensive operations**

In spite of decline in the Gross Current Asset (GCA) days the operations of the firm remain working capital intensive with GCA days of 261 in FY2018 which declined from 361 days in FY2017. This is mainly due to high inventory days of around 208 days in FY2018 and 248 days in FY2017. The debtor days stood at 61 days in FY18 and 101 days in FY17. The average bank utilisation stood at ~80 percent for the past six months ending March 2019.

Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

• **Susceptibility to volatility in raw material prices**

The operating margins (EBITDA) of MP stood at 12.65 percent in FY18 which declined from 18.61 percent in FY17. The major reason for decline in profit margins was due increase in metal prices such as steel and bronze and the firm's inability to pass the same to the buyers. Further, the firm is continuously involved in iterative process of developing new products, which increases the prices of the components. The net profit margins of MP stood at 1.63 percent in FY18 as against 3.31 percent in FY17 and 0.69 percent in FY16.

Liquidity Position:

MP has stretched liquidity marked by lower net cash accruals to its maturing debt obligations. MP generated cash accruals of Rs.0.31-0.63 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.50-0.60 crore over the same period. MP operations are highly working capital intensive as marked by gross current asset (GCA) days of 261 in FY 2018, resulting in higher reliance on working capital borrowings however, the bank limit utilisation over the last six months ended March 31, 2019 stood moderate at 80%. The firm maintained unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2018. The current ratio stood moderate at 1.86 times as on March 31, 2018.

Acuite believes that the liquidity is likely to remain stretched over the medium term on account of moderate cash accrual vis-à-vis debt repayment obligations.

Outlook: Stable

Acuite believes MP will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.25	11.13	10.33
EBITDA	Rs. Cr.	1.80	2.07	1.11
PAT	Rs. Cr.	0.23	0.37	0.07
EBITDA Margin	(%)	12.65	18.61	10.70
PAT Margin	(%)	1.63	3.31	0.69
ROCE	(%)	9.36	12.53	7.30
Total Debt/Tangible Net Worth	Times	1.42	1.46	0.97
PBDIT/Interest	Times	1.66	1.69	1.43
Total Debt/PBDIT	Times	4.94	4.35	5.66
Gross Current Assets (Days)	Days	261	361	273

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

None

Any other information

None

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
27-Feb-2018	Cash Credit	Short Term	4.00	ACUITE BB / Stable (Assigned)
	Working Capital Demand Loan	Short Term	1.50	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	3.50	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	4.55	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	0.45	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	4.00	ACUITE BB / Stable (Reaffirmed)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.24	ACUITE BB / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	4.55	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.46	ACUITE BB / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB / Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB / Stable (Assigned)

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About Acuité Ratings & Research:

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