

Press Release

Micro Precision

September 02, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.17.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.16.60 crore bank facilities of Micro Precision (MP). Acuité has also assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.0.40 crore bank facilities. The outlook is '**Stable**'.

Micro Precision (MP), a partnership firm based in Chennai was established by Mr. D Magesh and Mrs. M. Sandhya in 1990. The firm is engaged in 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 Tanks, BMP Tanks and engines. Also, MP has designed, developed and supplied valves (both manual and actuated) for nuclear submarines developed in India.

Analytical Approach

Acuité has considered the 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's, Mr. D Magesh and Mrs. Sandhya possess more than three decades of experience in engineered goods industry. Since 1990, the firm has been supplying precision components to the Army and Navy. The firm sources its orders through tenders. Also, in the past, they have supplied components for reputed projects such as the 'Arihant' submarine and Armoured Fighting Vehicles which includes T-72; T-90; ARJUN and BMP Tanks. The firm has been benefitting from repeat orders from clients owing to the established presence of the firm in the same line of business. Acuité believes that the firm will continue to benefit from its promoter's extensive industry experience and healthy relationship with customers over the long term.

- **Moderate financial risk profile**

The firm's moderate financial risk profile is marked by moderate net worth of Rs.8.97 crore as on 31 March, 2020 (Provisional) as compared to Rs.8.55 crore as on 31 March, 2019. The total debt of Rs.8.11 crore as on 31 March, 2020 (Provisional) includes long term borrowing of Rs.4.23 crore, short term borrowing of Rs.3.76 crore and unsecured loans from directors of Rs.0.12 crore. The gearing (debt-equity) stood low at 0.90 times as on 31 March, 2020 (Provisional) as compared to 0.96 times as on 31 March, 2019. The Interest Coverage Ratio stood moderate at 1.56 times for FY2020 (provisional) as against 1.62 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.10 times in FY2020 (Provisional) as against 1.13 times in FY2019. The total outstanding liabilities to total tangible net worth (TOL/TNW) stood at 1.13 times as on 31 March, 2020 (Provisional) as compared to 1.29 times as on 31

March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood moderate at 0.07 times for FY2020 (Provisional). Acuité believes that higher than expected debt-funded capex or lower than expected utilisation levels of installed capacity will remain critical to the credit risk profile of the MP.

Weaknesses

- **Moderate scale of operations and Tender based nature of business**

The firm's moderate scale of operations is marked by operating income of Rs.14.25 crore in FY2020 (Provisional) as compared to Rs.14.33 crore in FY2019. The profitability stood moderate, marked by a decline in the operating margin, which stood at 10.73 percent in FY2020 (Provisional) as compared to 12.36 percent in FY2019. The PAT margin stood in the same line at 1.75 percent in FY2020 (Provisional) as compared to 1.63 percent in FY2019. The firm deals with the Ministry of Defence and quotes for the contracts on a tender basis. The tender base nature of operations and competitive pricing along with successful bidding of contracts, will certainly impact operations of the firm. However, the firm has a success rate of ~60-70 percent in the tender bidding and experience of promoters mitigates such risk to a certain extent. Going forward, the firm's ability to successfully bid for a greater number of large orders remains key deliverable.

- **Working capital intensive operations**

The operations of the firm stood working capital intensive in nature marked by high Gross Current Assets (GCA) days of 309 in FY2020 (Provisional) and 312 days in FY2019, which is an industry characteristic. This is mainly due to high inventory days of around 170 days in FY2020 (Provisional) and 184 days in FY2019. The debtor days also stood high at 132 days in FY2020 (Provisional) and 136 days in FY2019. The average bank limit utilisation stood at ~78.00 percent for the past seven months ending July 2020. Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Rating Sensitivities

- Moderate scale of operations and tender base nature of business
- Sustaining existing financial risk profile
- Any further stretch in working capital operations leading to liquidity constraints

Liquidity Position: Stretched

Liquidity profile of the firm has remained stretched marked by lower net cash accruals to its maturing debt obligations. MP has generated cash accruals in the range of Rs.0.50-0.65 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.0.30-0.60 crore over the same period. The working capital operations are highly intensive in nature marked by Gross Current Asset (GCA) days of 309 in FY2020 (Provisional) as against 312 days in FY2019. The average bank limit utilisation over the last seven months ended July 31, 2020 stood moderate at 78.00 percent. The firm maintained low unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2020 (Provisional). The current ratio stood at 1.97 times as on March 31, 2020 (Provisional). Acuité 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

Acuité believes MP will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced partners. 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 a 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	14.25	14.33
PAT	Rs. Cr.	0.25	0.23
PAT Margin	(%)	1.75	1.63
Total Debt/Tangible Net Worth	Times	0.90	0.96
PBDIT/Interest	Times	1.56	1.62

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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-May-2019	Cash Credit	Long Term	4.00	ACUITE BB/Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.50	ACUITE BB/Stable (Withdrawn)
	Term loans	Long Term	3.24	ACUITE BB/Stable (Reaffirmed)
	Bank guarantee	Short Term	4.55	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	3.46	ACUITE BB/Stable (Reaffirmed)
	Term Loans	Long Term	1.50	ACUITE BB/Stable (Assigned)
	Term Loans	Long Term	0.25	ACUITE BB/Stable (Assigned)
27-Feb-2018	Cash Credit	Long Term	4.00	ACUITE BB/ Stable (Assigned)
	Working Capital Demand Loan	Long 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 Available	Not Applicable	Not Available	0.40	ACUITE BB/Stable (Assigned)
Term loans	Not Available	Not Applicable	Not Available	2.83	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	3.85	ACUITE BB/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.37	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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