

Press Release

Acme Forgings

June 01, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE BB**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 12.00 crore bank facilities of Acme Forgings. The outlook is '**Stable**'.

Acme Forgings (AF) was established by Late Mr. Jatinder Mohan in 1979. Initially, the firm started with manufacturing of hand-tools. Later in 2000, AF started manufacturing high-quality durable and cost-effective scaffolding fittings and ancillary equipments. The firm's product range includes industrial couplers, swivel couplers, pressed steel, timber beam coupler, scaffolding clamp, to name a few. The firm has two units located in Punjab with an installed capacity of 1300 MTPM and utilisation of ~55 percent. The firm exports 90 percent of its production to countries like England, Netherlands, Poland, Germany, Australia and Middle East and the balance production is distributed in the domestic market.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operation**

Acme Forgings (AF) was established by Late Mr. Jatinder Mohan, Ex-Director of Allahabad bank and Ex-Chairman of EEPC (Northzone). The firm is currently managed by Mr. Rajeev Sahdev who has been in the business for almost three decades. Extensive experience of the management in the family owned business has helped the firm establish healthy relations over the years with its foreign as well as Indian customers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by net worth of Rs.7.88 crore as on 31 March, 2018 (Provisional) as compared to Rs.7.19 crore as on 31 March, 2017. The gearing (debt-equity) increased to 1.48 times as on 31 March, 2018 (Provisional) from 0.69 times as on 31 March, 2017. The total debt of Rs. 11.70 crore as on 31 March, 2018 consists of long term debt of Rs.1.30 crore, interest-free loans from suppliers of Rs.2.50 crore and short term working capital borrowings of Rs.7.90 crore. The Interest Coverage Ratio (ICR) stood healthy at 3.94 times in FY2018 (Provisional) as against 4.14 times in FY2017. The Total Outstanding Liabilities to Total Net Worth (TOL/TNW) increased to 2.56 times as on 31 March, 2018 (Provisional) against 1.74 times as on 31 March, 2017. Net Cash Accruals for FY2018 (Provisional) stood at Rs.1.70 crore.

- **Moderate working capital management**

The working capital management is marked by gross current asset (GCA) days of 159 in FY2018 (Provisional) and 160 in FY2017. The firm has an inventory holding period of 59 days in FY2018 (Provisional) against 38 days in FY2017. There has been an improvement in the collection period from 90 days in FY2017 to 50 days in FY2018 (Provisional). The bank facilities on an average are fully utilised.

Weaknesses

• Uneven Revenue

The revenues of the firm have been uneven during the period FY2018 to FY2016. The revenue stood at Rs.49.25 crore in FY2018 (Provisional) as against Rs.31.20 crore in FY2017 and Rs.61.63 crore in FY2016. The drop in revenue has been mostly due to economic disruption in the middle-eastern countries where the firm used to sell most of its production. However during the year, the firm has added new clientele in the European market.

• Competitive and fragmented industry

The firm operates in a highly competitive and fragmented industry characterised by a large number of players affecting margins.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of AF to arrive at the rating

Outlook: Stable

Acuite believes that AF will maintain a 'Stable' outlook over the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of sustained and significant growth in operating income while improving its profitability margins. The outlook may be revised to 'Negative' in case of sustained decline in the firm's revenue and profitability metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	49.25	31.20	61.63
EBITDA	Rs. Cr.	2.26	1.68	2.42
PAT	Rs. Cr.	1.00	0.64	1.27
EBITDA Margin	(%)	4.59	5.40	3.93
PAT Margin	(%)	2.02	2.04	2.07
ROCE	(%)	9.94	9.06	32.38
Total Debt/Tangible Net Worth	Times	1.48	0.69	0.70
PBDIT/Interest	Times	3.94	4.14	4.71
Total Debt/PBDIT	Times	5.13	2.89	1.87
Gross Current Assets (Days)	Days	159	160	84

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

CRISIL, vide its press release dated October 17, 2016 had denoted the rating of Acme Forgings as 'Suspended; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BB-/Stable/CRISIL A4+' vide its press release dated May 13, 2015.

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)

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	1.60	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE BB / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	4.40	ACUITE A4+
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.10	ACUITE BB / Stable

*Includes BPLC as sublimit to the extent of Rs. 0.50 crore. One way convertibility from PCL/PCFC to FDBP/FUDBP limit within overall export credit exposure.

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in</p> <p>Manmitha Sodhi Analyst - Rating Operations Tel: 022-67141133 manmitha.sodhi@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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