

## Press Release

### CNC India Tools And Services Private Limited

June 28, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 20.42 Cr.
<b>Long Term Rating</b>	ACUITE BB/Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4+

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating **ACUITE A4+** (read as **ACUITE A four plus**) on the Rs.20.42 crore bank facilities of CNC India Tools And Services Private Limited (CNCI). The outlook is '**Stable**'.

CNC India Tools and Services Private Limited (CNCI) initially set up as a partnership firm in 1992, was promoted by Mr. Jayaraman Nagarajan, Mr. Jayaraman Vijayakumar, Mr. Coimbatore Jayathirtha Badrinath. The firm was reconstituted as a private limited company in February 10, 2004. The company is primarily engaged in manufacturing of computer numerical control (CNC) machine tools. The product portfolio comprises of cutting tools, jigs & fixtures, retrofitting & reconditioning of CNC machines, electrical panel & boards, special purpose machine as required by its clients. The manufacturing facility of the company is located at Peenya in Bangalore.

### Key Rating Drivers

#### Strengths

##### **Established presence and reputed client base**

Established in 1992, the promoters have an experience of more than two decades in the machine tools industry. The experienced management and more than two decades of presence in the industry helped the company in bagging reputed clientele like TVS Motor Company Ltd., Mitsubishi Materials India Pvt Ltd, Honda Motorcycle and Scooters India Pvt Ltd., India Yamaha Motors Pvt Ltd., Wipro Infrastructure Engineering, Automotive Axles Limited, Elgi Equipments Limited among others. The association has helped the company in steady revenues at a compound annual growth rate of about 12 percent over four years through FY2018 (Provisional). CNCI has an order book of about Rs.30.00 crore for execution and deliverable in the next six months. Acuité believes that CNCI's longstanding presence and relationship with reputed clients is expected to support in improving the business risk profile over the medium term.

##### **Average financial risk profile**

The financial risk profile is average marked by comfortable gearing (debt-to-equity) and debt protection metrics, though underpinned by modest net worth. CNCI's gearing is at 1.52 times as of March 31, 2018 (Provisional) against 1.16 times in the previous year. The debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are comfortable at 1.98 times and 0.12 times in FY2018 (Provisional). Also, the debt service coverage ratio is comfortable at 1.52 times in FY2018 (Provisional). However, the net worth is modest at Rs.5.80 crore as on 31 March, 2018 (Provisional) as against Rs.5.24 crore as on 31 March, 2017. Acuité believes that the financial risk profile is expected to improve on the back of increasing order book and revenue profile over the medium term.

## Weaknesses

### Working capital intensive operations and highly competitive nature of industry

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 120 days in FY2018 (Provisional) and 162 days in FY2017; they are expected to be at similar levels due to the time taken for manufacture and staggered deliverables to its clientele. While inventory days over the past four years have been comfortable at about 40 days basis the local sourcing. However, the modest scale of revenues with low profitability margin results in stretch in working capital operations. As a result, CNCI's bank lines are almost utilised at about 92 percent over six months through March 31, 2018 (Provisional). Acuite believes that any significant increase in the working capital will have a bearing on the liquidity profile of the company.

### Fragmented and intensely competitive industry

The Indian machine tools industry is highly fragmented and intensely competitive with presence of numerous organised and unorganised manufacturers. The industry faces high competition from the overseas players as well. The competitive intensity is further stressed by influx of second hand /reconditioned imported machineries at cheaper prices mounting pressure on the volumes as well as the margins.

## Analytical Approach

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

### Outlook: Stable

Acuite believes that the outlook on CNCI will remain 'Stable' over the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' if the company achieves better than expected growth in revenues while maintaining its profitability margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in capital structure due to larger-than-expected capital expenditure (capex) plan or sharp decline in revenues and profitability.

## About the Rated Entity - Key Financials

	Unit	FY17 (FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	43.28	32.24	32.23
EBITDA	Rs. Cr.	2.37	1.59	2.15
PAT	Rs. Cr.	0.68	0.35	0.79
EBITDA Margin	(%)	5.46	4.92	6.66
PAT Margin	(%)	1.56	1.08	2.46
ROCE	(%)	21.34	15.15	51.39
Total Debt/Tangible Net Worth	Times	1.16	1.01	0.74
PBDIT/Interest	Times	2.59	2.20	3.73
Total Debt/PBDIT	Times	2.48	2.78	1.41
Gross Current Assets (Days)	Days	162	127	131

## 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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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
secured overdraft against hypothecation (SODH)	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB/ Stable (Assigned)
Proposed SODH	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB/ Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.82	ACUITE BB/ Stable (Assigned)
Term Loan Proposed	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB/ Stable (Assigned)
ILC/FLC/BG	Not Applicable	Not Applicable	Not Applicable	8.10	ACUITE A4+ (Assigned)
Proposed ILC/FLC/BG	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)

## Contacts

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## About Acuite Ratings & Research:

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