

Press Release

CNC Machining Technology

October 30, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE BB minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 6.00 crore bank facilities of CNC Machining Technology. The outlook is '**Stable**'.

CNC Machining Technology (CMT) is a partnership firm based in Bhiwandi (Rajasthan). CMT was established in 2000 and is engaged in manufacturing automobile ancillaries such as rings, gear blanks, flanges, among others. The firm is managed by partners; Mr. Sushil Kumar and Mr. Manoj Rajput.

Analytical Approach

Acuité has considered the consolidated financial and business risk profile of CNC Machining Technology and Power Forge Private Limited. The consolidation is in view of the common management, operational and financial synergies.

Key Rating Drivers

Strengths

- **Experienced management**

CMT is engaged in manufacturing Gear Blanks, Shaft Blank, Rings, Hubs, Pulleys, Flanges & Machined components. The partners have almost 25 years of experience in the related field thus having established relationships with various suppliers and customers in the industry.

- **Healthy revenue growth and order book position**

CMT has achieved growth in operating income to Rs.18.49 crore in FY2018 from Rs.17.18 crore in FY2017 and Rs.15.20 crore in FY2016, while PEPL has achieved growth in operating income to Rs.8.35 crore in FY2018 from Rs.5.55 crore in FY2017 and Rs.3.18 crore in FY2016. Also, CMT has booked revenue of Rs.14.36 crore and PEPL has booked revenue of Rs.6.20 crore as on September 2018. Further, CMT has bagged orders of ~Rs.4.00 crore to be completed before March 2019 and PFPL has orders of Rs.1.50 crore as on as on 30 September, 2018 which gives future visibility of revenue in the medium term.

Weaknesses

- **Average financial risk profile**

The financial risk profile of CNC group is average marked by low net worth, average debt protection measures and high gearing. The net worth of the group stood at Rs.4.86 crore as on 31 March, 2018 as against Rs.4.37 crore as on 31 March, 2017. The gearing of the group has improved but remains high at 2.27 times as on March 31, 2018 as compared to 2.88 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.81 times as on 31 March, 2018 as against 4.26 times as on 31 March, 2017. Interest Coverage Ratio (ICR) has slightly improved to 2.72 times in FY2018 as compared to 2.42 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood moderate at 0.20 times as on 31 March, 2018 as against 0.16 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.48 times for FY2018 from 1.59 times in FY2017. Acuité believes that the financial risk profile of CNC group will improve over the medium term on account of its improving scale of operations.

• **Working capital intensive operations**

The operations of CNC group are working capital intensive marked by Gross Current Assets (GCA) of 168 days in FY2018 as against 182 days in FY2017. The receivables period has slightly increased to 89 days in FY2018 from 90 days in FY2017. The inventory holding period stood at 89 days in FY2018 as against 80 days in FY2017. The payables period has remained stable at 217 days in FY2018 from 215 days in FY2017. The average bank limit utilisation stood at ~95 percent for the last three months ended September 2018.

Outlook: Stable

Acuité believes that CNC group will maintain a 'Stable' outlook and may improve its business risk profile in the medium term on the back of sustained growth in revenue, established operations and long standing experience of the partners in the business. The outlook may be revised to 'Positive' in case of significant improvement in financial risk profile or more than expected inflow of revenue. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile or deterioration of working capital requirement management.

About the Group

CNC Machining Technology (CMT) and Powerforge Engineering Private Limited (PEPL) are part of the same group of entities, commonly known as the CNC group. PEPL was acquired by the partners of CMT in 2014 and is engaged in forging of automobile ancillary components.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	25.05	21.90	18.07
EBITDA	Rs. Cr.	3.62	3.52	3.00
PAT	Rs. Cr.	0.42	0.27	0.29
EBITDA Margin	(%)	14.44	16.07	16.58
PAT Margin	(%)	1.67	1.24	1.62
ROCE	(%)	11.62	11.22	22.19
Total Debt/Tangible Net Worth	Times	2.27	2.88	3.23
PBDIT/Interest	Times	2.72	2.42	2.37
Total Debt/PBDIT	Times	3.02	3.55	3.72
Gross Current Assets (Days)	Days	168	182	193

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4

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About Acuité Ratings & Research:

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