

Press Release

Fine Components and Tools Private Limited

June 21, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 19.80 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) and its short-term rating of '**ACUITE A2+**' (read as **ACUITE A Two Plus**) on the Rs. 19.80 Cr bank facilities of Fine Components and Tools Private Limited (FCT). The outlook is '**Stable**'.

The reaffirmation of the ratings assigned to FCT takes into account, the extensive experience of the management in auto-ancillary business, its established track record, reputed clientele base, healthy financial risk profile and adequate liquidity of the company. The aforementioned strengths were tempered by the competitive nature of auto ancillary industry and the susceptibility to the cyclical nature in automotive industry.

Fine Components and Tools Private Limited was established in 1994 based out of Bangalore as proprietorship concern and subsequently constitution changed to private limited company in 1997. The company is promoted by Mr. C Krishnamoorthy. FCT is engaged in manufacturing of sheet metal stamping parts and assemblies. These include parts of Seat Belt Frames, Seat Rail & Side Frame, Buckle Straps, Seat Folding Hinges, Air Bag Containers, Air Bag Retainer Rings, Arm Rest, and Axle Housing etc. FCTPL has four manufacturing units and has installed capacity to process 2000 metric tons of steel quantity per month and processing 1300-1400 MT of steel every month. Major customers include companies like Toyota Boshoku Automotive India Private Limited, Autoliv Safety System India Private Limited, Tokai Rubber Auto Parts India Private Limited, Toyota Kirloskar Motors Private Limited, Toyotetsu India Auto Parts Private Limited, Rane TRW Steering Systems Private Limited and Denso Kirloskar India Private Limited etc.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele:**

FCT was established in 1994 based out of Bangalore as proprietorship concern and subsequently constitution changed to private limited company in 1997. The company is promoted by Mr. C Krishnamoorthy. The promoters have more than two decades of experience in automobile ancillary business and are well supported by a second line of management comprising Mr. Gopinath Krishnamoorthy and Mrs. Krishnamoorthy Kavitha. The promoter's extensive experience has helped the company to establish healthy relationship with the reputed customers and suppliers. FCT's major customers include companies like Toyota Boshoku Automotive India Private Limited, Autoliv Safety System India Private Limited, Tokai Rubber Auto Parts India Private Limited and Denso Kirloskar India Private Limited etc. Acuite believes, having a stable clientele will provide strong revenue visibility in short to medium term.

- **Stable revenue and operating margins**

The revenue of the company has been stable, albeit marginal decline over the couple of years in line with the decline in sales in OEM and impact of COVID Pandemic. The revenue was in the range of Rs 157.69 Cr to Rs 173.56 Cr over the past 3 years ended FY21 (Prov). Further the operating margin was in

the range of 8.01 percent to 12.42 percent over the past 3 years. The net profit margins were stable in the range of 4.12 percent to 6.87 percent. The marginal decline in performance in FY21(Prov) was primarily as a result of impact of pandemic as the company was unable to operate during the lockdown period. Acuite believes, the revenue and operating margins to be fairly stable in the short term, improving marginally over medium term in line with the performance of the automotive industry.

• **Healthy financial risk profile**

FCT's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of FCTPL is healthy at around Rs. 81.07 Cr as on March 31, 2021 (Prov) as against Rs.73.68 Cr as on March 31, 2020. The net worth has significantly improved over the past three years through FY21 on account of healthy accretion of profits to reserves.

The company has followed a very conservative finance policy as can be observed from the gearing in the range of 0.04 times to 0.13 times over the past 3 years ending FY21 (Prov). The Total outside liabilities to net worth was in the range of 0.36 times to 0.55 times over the same period. The total debt comprised of only the utilization of working capital facilities.

The debt protection metrics were healthy as observed from strong Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) which stood at 70.85 times and 9.02 times for FY21 (Prov) as against 33.44 times and 9.98 times for FY20, respectively. This is due to the steady growth in operations. Acuite believe, that the financial risk profile is expected to be at similar levels over the medium term considering no debt funded expansion planned in near future.

Weaknesses

• **Competitive nature of auto ancillary business and its susceptibility to cyclicity to automotive industry**

FCT is present in highly competitive auto ancillary business which has large number of small and large players who have a varied appetite for technology. Majority of the high margin and technology intensive works are picked up by larger players who can set aside funds for research and development. The less technologically intensive and production activities are passed on to smaller players in the market. Automobile industry is highly cyclical with demand moving with larger economic cycle, customer preferences, government policies etc. FCT has a limited bargaining power with its customers and faces customer concentration risk, as more than 77 per cent of the revenue is deriving from four top customers. We believe that FCT will continue to remain exposed to the volatility in demand for the products and dependency on OEMs.

Liquidity Position: Adequate

The operations of the company are working capital intensive as evident from high gross current asset days of 288 for FY20 as against 244 days in the previous year. The stretched GCA days are on account of high inventory days, an increase in advances paid to suppliers for various projects and higher trade receivables. High inventory is on account of multiple variants of products being custom manufactured by the company. Further to this, the increase in trade receivables were as a result of delayed commissioning of work completed till third week of March 2020 which were unpaid due to lockdown. However, the liquidity position is healthy with average cash credit limit utilization stood at ~ 41 percent during the last ten months ended January 2021. Further, the company has maintained collateral deposit of Rs.3.72 Cr as on FYE20 (excluding the BG margin of Rs 2.50Cr). The company does not have major any long term debt obligations while the company had availed COVID Loan to the tune of Rs 0.27 Cr out of which the current outstanding is Rs 0.24 Cr.

Rating Sensitivities

- Higher-than-expected revenues and profitability margins
- Improvement in working capital cycle.

Outlook: Stable

Acuite believes that FCTPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience and improving business risk profile. The outlook may be revised to 'Positive' in case of significant growth in its revenues and higher than expected cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	157.69	163.76
PAT	Rs. Cr.	6.50	11.25
PAT Margin	(%)	4.12	6.87
Total Debt/Tangible Net Worth	Times	0.13	0.04
PBDIT/Interest	Times	70.85	33.44

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

Not Applicable

Any other information

None

Any Material Covenants

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 Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25 March 2020	Working Capital Loan	Long Term	6.00	ACUITE A-/Stable (Reaffirmed)
	Cash credit	Long Term	6.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	5.25	ACUITE A-/Stable (Reaffirmed)
	Bank guarantee	Short Term	1.20	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Short Term	1.35	ACUITE A-/Stable (Reaffirmed)
20 Feb 2019	Working Capital Loan	Long Term	6.00	ACUITE A-/Stable (Assigned)
	Cash credit	Long Term	6.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	5.25	ACUITE A-/Stable (Assigned)
	Bank guarantee	Short Term	1.20	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Short Term	1.35	ACUITE A-/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
Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.60	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE A-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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