

Press Release

SURFINE TOOLS

D-U-N-S® Number: 86-002-1681

February 27, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 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 double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 10.00 crore bank facilities of SURFINE TOOLS (ST). The outlook is '**Stable**'.

Coimbatore (Tamil Nadu) based, ST was established in 2006 by Mr. N Rajendra and Mr. V. Sriram. The firm is engaged in manufacturing of precision components for Automobile, Tractor and Textile Industries. The firm is currently running at ~70-80 percent of its capacity. ST basically caters to the Tier I suppliers for OEMs.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of ST to arrive at the rating.

Key Rating Drivers

Strengths

- **Moderating working capital cycle**

ST has moderate working capital cycle as marked by Gross Current Asset (GCA) days of 132 in FY2018, which has decreased from 147 in the previous year. This is mainly on account of inventory clearance from 70 days in the previous year to 62 days in FY2018. In addition, the collection cycle has improved marginally from 82 days in FY2017 to 74 days in FY2018. The current ratio has been bleak at 1.08 times in FY2018 as against 1.15 times in the previous year.

- **Experienced management**

ST is engaged in the aforementioned line of business since 1990s and has developed long term relations with suppliers and customers. The partners, Mr. N. Rajendran and Mr. V. Sriram possess more than three decades of experience in the industry.

Weaknesses

- **Moderate financial risk profile**

The firm has moderate financial risk profile as mark by net worth of Rs.6.27 crore in FY2018 as compared to Rs.5.74 crore in the previous year. Out of total debt of Rs.9.03 crore in FY2018, Rs.4.36 crore consists of long term debt and the balance is in the form of short term liability in the form of Cash Credit facility. Gearing (debt-equity) of the firm increased from 1.11 times in FY2017 to 1.44 times in FY2018. Total Outstanding Liability to Total Net Worth (TOL/TNW) of the firm increased from 2.14 times in FY2017 to 2.69 times in FY2018 backed by increase in total liability.

- **Volatility in profitability margins**

ST reported operating margin of 8.04 percent for FY2018 as against 10.69 percent in the previous year. However, the net profit margins are thin at 1.79 per cent for FY2018 as against 2.92 per cent in the previous year, mainly on account of high raw material and interest cost on bank borrowings.

• Risk of capital withdrawal

The firm is exposed to the risk of capital withdrawal considering its partnership constitution.

Liquidity Position:

Liquidity of ST is moderate marked by generation of cash accruals of Rs.1.77 crore in FY2018; ST is expected to generate cash accruals in the range of Rs.2.00-2.50 crore over the medium term against its repayment obligations of Rs.1.25 crore. Its bank lines though highly utilised, however there is flexibility to an extent of ~15-20 per cent of sanctioned bank lines on an average over the past six months through November 2018 to meet any exigency. Moderate cash accruals vis-à-vis its repayment obligations and capex and unutilised bank lines keep the liquidity profile at moderate levels.

Outlook: Stable

Acuite believes that the outlook on ST will remain 'Stable' over the medium term on account of its experienced management and moderate working capital cycle. The outlook may be revised to 'Positive' if the firm's scale of operations increases substantially, while also improving its operating profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve the scalability amidst intensifying competition in the area of operation or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	36.13	24.50	17.93
EBITDA	Rs. Cr.	2.91	2.62	2.24
PAT	Rs. Cr.	0.65	0.71	0.54
EBITDA Margin	(%)	8.04	10.69	12.47
PAT Margin	(%)	1.79	2.92	3.02
ROCE	(%)	13.00	15.18	26.05
Total Debt/Tangible Net Worth	Times	1.44	1.11	0.93
PBDIT/Interest	Times	3.51	3.98	4.51
Total Debt/PBDIT	Times	3.11	2.43	2.14
Gross Current Assets (Days)	Days	132	147	157

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

Not Applicable

Any other information

Not Applicable

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>

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	5.50*	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.35	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE A4+

*sublimit - EPC/PCFC of Rs.2.50 crore and FBP/FBD/FBN of Rs.2.50 crore of CC

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About Acuité Ratings & Research:

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