

Press Release

Approcopp Engineering Private Limited

D-U-N-S® Number: 65-043-7549

March 20, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 9.50 crore bank facilities of Approcopp Engineering Private Limited (AEPL). The outlook is '**Stable**'.

Incorporated in 2006, AEPL is engaged in manufacturing of various types of precision Non-Ferrous Tubular components and their Brazed Assemblies for HVAC industries, Refrigeration, Automobiles and Agriculture industries. The manufacturing unit is located at Jalna (Maharashtra) with utilisation of around 65 per cent. The day to day operations are managed by its Managing Director, Mr. Jitendra Bachhraj Rathi. The company has reputed clientele which includes Blue Star, Voltas, Godrej, Emerson and Ingersoll Rand, among others.

Analytical Approach

Acuité has considered standalone business and financial risk profiles of AEPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

AEPL commenced operations from 2006. The company is promoted by its Managing Director, Mr. Jitendra Bachhraj Rathi along with other Directors, Mrs. Varsha Anil Loya, Mr. Navin Totala and Mrs. Shilpa Rathi Jitendra, who possess individual experience of over a decade in manufacturing industry. The extensive experience has enabled the company forge healthy relationship with customers and suppliers. Acuité believes that AEPL will continue to benefit from its experienced management and established relationships with customers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate net worth, debt protection measures and gearing. The net worth of the company stood moderate at Rs.7.81 crore as on 31 March, 2018 as against Rs.7.22 crore as on 31 March, 2017. The gearing stood moderate at 1.70 times as on 31 March, 2018 as against 1.66 times as on 31 March, 2017. Total debt of Rs.13.25 crore consists of term loan of Rs.7.22 crore, unsecured loan of Rs.0.01 crore and working capital facilities of Rs.6.02 crore as on 31 March, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood below average at 2.27 times as on 31 March, 2018 as against 2.62 times as on 31 March, 2017. The decline in revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) deteriorated to 1.88 times in FY2018 from 3.35 times in FY2017. Debt Service Coverage Ratio (DSCR) deteriorated to 1.72 times for FY2018 from 2.68 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) deteriorated to 0.09 times as on 31 March, 2018 from 0.19 times as on 31 March, 2017. Acuité believes that the financial risk profile of AEPL will improve over the medium term on account of its improving scale of operations and net cash accruals along with inclusion of new reputed clients.

Weaknesses

• Decline in scale of operations and profitability

AEPL reported decline in revenue by ~51 percent with operating income of Rs.18.08 crore in FY2018 from Rs.37.24 crore in FY2017. This is because of collapse of one of its major customer i.e. Videocon, which resulted in reduction in sales by around 50 per cent. Further, the balance receivable from Videocon is around Rs.1.40 crore out of the total Rs.3.00 crore in current financial year. However, the operating margins of the company increased to 15.65 percent in FY2018 from 11.74 percent in FY2017. Acuité believes that the scale of operations of the company will improve due to inclusion of new clientele. Further, the company generated revenues of around Rs.24.00 crore (Provisional) for the period April, 2018 to January, 2019.

• Intensive working capital operations

AEPL has intensive working capital operations marked by high Gross Current Assets (GCA) of 296 days in FY2018 as against 137 days in FY2017. The inventory and debtor levels stood at 133 and 138 days in FY2018 as against 43 and 74 days in FY2017, respectively. The increase in inventory is because of cancellation of orders from one of its customers, due to which there was inventory pile up. Acuité believes that the working capital requirements will improve over the medium term on account of its continuous efforts to cater to new customers and unwind the inventory.

Liquidity Position

AEPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.75 to 1.14 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.71 to 0.97 crore over the same period. The cash accruals of the group are estimated to remain around Rs.2.66 to 4.39 crore during 2019-21 while its repayment obligations are estimated to be around Rs.0.97 Crore. The company's operations are working capital intensive as marked by high gross current asset (GCA) days of 296 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.08 crore as on March 31, 2018. The current ratio of the group stands at 1.42 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that AEPL will maintain 'Stable' outlook over the medium term from the industry experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in AEPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.08	37.24	34.97
EBITDA	Rs. Cr.	2.83	4.37	3.22
PAT	Rs. Cr.	0.50	1.71	1.30
EBITDA Margin	(%)	15.65	11.74	9.22
PAT Margin	(%)	2.75	4.59	3.72
ROCE	(%)	11.64	24.91	48.73
Total Debt/Tangible Net Worth	Times	1.70	1.66	1.22
PBDIT/Interest	Times	1.88	3.35	3.12
Total Debt/PBDIT	Times	4.43	2.70	1.96
Gross Current Assets (Days)	Days	296	137	100

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

None

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>

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
Term loans	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable

Contacts

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About Acuité Ratings & Research:

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