

Press Release

ADVANCE DIE CAST

June 24, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 14.35 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 double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 14.35 crore bank facilities of ADVANCE DIE CAST (ADC). The outlook is '**Stable**'.

Set up in 1995, ADC is a Hubli based partnership firm engaged in manufacturing of die cast components and fabricated motor parts used for industrial purpose. The plant is located at Hubli and Bengaluru (Karnataka) with a monthly production capacity of around 125 tons. The firm is promoted by four partners, Mr. Shivaram Hegde, Mr. Nagaraj Divate, Mrs. Veena S Hegde and Mrs. Bharati N Divate.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

The firm has a long track record of operations of over three decades in the manufacturing of die castings. The firm is promoted by Mr. Nagaraj R Divate and Mr. Shivaram Hegde who have business experience of more than 30 years in manufacturing of pressure die cast components and fabricated motors parts. Hence, long track records of operations and vast experience of management has helped the company to develop healthy relationship with its customers and suppliers.

- **Long standing relationship with reputed customers**

The firm has a healthy relationship with reputed customers like IFB Industries Limited and Bharat Heavy Electricals Limited (BHEL). Their key customer, IFB Industries Ltd accounts for around 65% of total sales, thereby posing customer concentration risk. However, the same is partly mitigated by their healthy relationship of over 20 years. The company has been able to get repeat orders from their main customers.

- **Modest scale of operations**

The firm has registered modest revenues of Rs. 31.66 crore in FY2018 compared to Rs. 25.80 crore in FY2017, marking a growth of nearly 23% year over year. Moreover, in FY2019 (provisional), the firm has achieved revenues of Rs. 38.80 crore. This rise is on account of higher utilisation of capacity and volume growth. In FY2019, the firm has derived 75% of total revenues through sale of die cast components and remaining through sale of fabricated motor parts. Acuité believes that ADC will sustain the growth in operating income on the back of continuous orders from the customers.

Weaknesses

- **Average financial risk profile**

The firm's financial risk profile is average marked by low net worth, high gearing and modest debt protection metrics. The net worth of the firm stood at Rs.4.61 crore as on 31 March, 2018 as against Rs.3.84 crore in the previous year. The net worth of the firm stood at Rs.5.50 crore as on 31 March, 2019 (provisional). The gearing marginally deteriorated to 2.84 times as on 31 March, 2018 from 2.56 times in the previous year on account of significant debt funded capital expenditure towards purchase of machinery. Total debt of Rs.13.12 crore consist of Rs.8.26 crore of long term borrowings and short term borrowings of Rs. 4.86 crore. The debt protection metrics is marked by interest coverage ratio (ICR) of 2.06 times in FY2018 and debt service coverage ratio (DSCR) of 1.29 times as on March 31, 2018. NCA/TD ratio stood at 0.10 times in FY2018 as against 0.09 times in FY2017.

- **Moderate working capital intensity**

The firm has moderate capital intensity marked by Gross Current Assets (GCA) of 137 days for FY2018 as against 142 days for FY2017. High GCA days are on account of high debtor holding period of 105 days for FY2018 as against 108 days for FY2017. Inventory days stood at 22 days for FY2018 as against 10 days for FY2017. The same is reflected by high bank limit utilization of around 92 per cent during the last twelve months ended May, 2019. Acuité believes that the company's ability to maintain its working capital efficiently will remain a key rating sensitivity.

Liquidity profile

The firm's liquidity profile is moderate marked by net cash accruals of Rs.2.12 crore during FY19 (Provisional) against maturing debt obligations of Rs.2.07 crore over the same period. The firm's operations are moderately working capital intensive as marked by gross current asset (GCA) of 137 days in FY 2018 and the cash credit limit of the firm remains utilised at 92 percent during the last twelve months ended May, 2019. The firm maintains unencumbered cash and cash equivalents of Rs.0.15 crore as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain moderate over the medium term.

Outlook: Stable

Acuité believes ADC will continue to benefit over the medium term from the extensive industry experience of its partners and established relationship with customers. The outlook may be revised to 'Positive' in case of substantial increase in scale of operations leading to improvement in the business risk profile. Conversely, the outlook may be revised to 'Negative' if there is significant dip in sales leading to lower accruals. Further, deterioration in the financial risk profile may also lead to 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	31.66	25.80	22.42
EBITDA	Rs. Cr.	2.53	1.41	1.17
PAT	Rs. Cr.	0.16	0.60	0.31
EBITDA Margin	(%)	7.99	5.45	5.24
PAT Margin	(%)	0.51	2.34	1.37
ROCE	(%)	9.49	11.38	25.96
Total Debt/Tangible Net Worth	Times	2.84	2.56	1.38
PBDIT/Interest	Times	2.06	3.10	2.28
Total Debt/PBDIT	Times	4.95	6.51	3.34
Gross Current Assets (Days)	Days	137	142	128

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

CRISIL, vide its press release dated October 29, 2018 had denoted the rating of Advance Die Cast as 'CRISIL BB-/CRISIL A4+; ISSUER NOT COOPERATING'

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	5.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.25	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+

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About Acuité Ratings & Research:

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