

Press Release

Advance Die Cast

August 06, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.14.35 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Reaffirmed)
Short term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the 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**'.

Karnataka based, Advance Die Cast (ADC) is a partnership firm engaged in the manufacturing of die cast components and fabricated motor parts used for industrial purpose. The firm is promoted by four partners, Mr. Sivaram Hegde, Mr. Nagaraj Divate, Veena S Hegde and Bharati N Divate.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

ADC was established in 1995. The partners of the firm; Mr. Sivaram Hegde, Mr. Nagaraj Divate, Veena S Hegde and Bharati N Divate have amassed an experience of more than two and a half decades in the aforementioned line of business. The established track record of operations and experience of the management have helped the firm to develop healthy relationships with its customers and suppliers.

Acuité believes that the firm will continue to benefit from the partners established presence in the industry and its improving business risk profile over the medium term.

Weaknesses

- **Average financial risk profile**

The firm has an average financial risk profile marked by modest net worth, high gearing and average debt protection metrics. The net worth stood at Rs.5.79 crore (Prov) as on 31 March, 2019 as against Rs.5.28 crore on 31 March, 2019 due to modest accretion to reserves.

The firm has followed an aggressive financial policy in the past; the same is reflected through its gearing levels of 2.82 times as on March 31, 2019. The gearing improved to 2.35 times (Prov) as on March 31, 2020. The total debt of Rs.13.64 crore (Prov) as on 31 March, 2020 consisted of long term debt of Rs.8.08 crore (Prov) and working capital requirement of Rs.5.55 crore (Prov). Total outside liabilities to tangible net worth (TOL/TNW) stood at 3.67 times (Prov) as on 31 March 2020 as against 6.45 times as on 31 March 2019.

The firm, on the other hand, generated cash accruals of Rs.1.89 crore (Prov) in FY2020 as against Rs.1.76 crore in FY2019. The profitability levels, coupled with debt levels, have led to average debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were moderate at 0.14 times (Prov) and 1.93 times (Prov), respectively.

Acuité believes that the financial risk profile of the firm is likely to remain average over the medium term, on account of high gearing and average debt protection metrics.

- **Competitive and fragmented industry**

The firm operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm.

Rating Sensitivities

- Scaling up of operations
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

None

Liquidity position: Stretched

The firm has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.89 crore (Prov) for FY2020, with debt repayment obligations of Rs.1.73 crore (Prov) for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.1.74 crore to Rs.2.35 crore during FY2021-23 against debt repayment obligations of Rs.1.73 crore every year in the same period. The firm's working capital operations have shown improvement, marked by GCA of 131 days (Prov) for FY2020. The average bank limit utilisation over the past six months ended June 2020 remained around ~87 percent. The current ratio stood at 1.12 times (Prov) as on 31 March, 2020. Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accruals against its debt repayments over the medium term.

Outlook: Stable

Acuité believes that the firm will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of a significant improvement in working capital operations while maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in the scale of operations or profitability or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	37.49	38.74
PAT	Rs. Cr.	0.52	0.38
PAT Margin	(%)	1.38	0.97
Total Debt/Tangible Net Worth	Times	2.35	2.82
PBDIT/Interest	Times	1.93	2.19

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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 Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-Jun-2019	Cash Credit	Long term	5.00	ACUITE BB/Stable (Assigned)
	Term Loan	Long term	9.25	ACUITE BB/Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short term	0.10	ACUITE A4+ (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/ Stable (Reaffirmed)
Term Loan	September 30, 2016	Not Applicable	November 30, 2025	8.08	ACUITE BB/ Stable (Reaffirmed)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE BB/ Stable (Assigned)

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About Acuité Ratings & Research:

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