

Press Release

Accura Weldrods Kovai Private Limited

July 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.85 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 BB minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 6.85 crore bank facilities of Accura Weldrods Kovai Private Limited. The outlook is '**Stable**'.

Established in 2011, Accura Weldrods Kovai Private Limited (AWKPL) is a private limited company based out of Coimbatore, Tamil Nadu engaged in manufacturing of welding electrodes. The firm is promoted by Mr Nanthagopal

Key Rating Drivers

Strengths

- **Established presence of the promoters**

Mr Nanthagopal and Mr Karpagam, founder promoters of the company have been in the line of fabrication and welding segment for over a decade. Over a period, the company's operations spread across the states of Tamil Nadu and Kerala through a wide distribution network of more than 3000 retailers, eliminating intermediaries supported in better pricing. Wide reach along with healthy relations with customers and suppliers helped the company in reporting a moderate growth in revenues, at a compound annual growth rate (CAGR) of about 17 per cent over four years through FY2018 (refers to financial year, April 1st to March 31st) at Rs.28.6 crores (provisional). Also, the management plans to foray into exports to Middle East countries. To expand further, Accura plans to expand the manufacturing capacity over the medium term by investing about Rs.4.0 crores. Acuité believes that Accura is expected to benefit from the wide reach of its operations, and the long operational track record of the management.

- **Efficient working capital management**

Accura's operations are efficiently managed as evident from healthy gross current asset (GCA) days of about 78 days (provisional) in FY2018. Its receivables are on an average 40 days, and maintains an inventory of about a month. It procures key raw material - steel from JSW Steel against bank guarantee. Acuité believes that despite increasing scale of revenues, the working capital operations continues to be healthy supported by tight management of its inventory and receivables management.

Weaknesses

- **Below-average financial risk profile**

Accura's financial risk profile is below-average marked by high gearing (debt-to-equity ratio) and total outside liabilities to total networth (TOL/TNW), though underpinned by moderate debt protection metrics. Its gearing is high at 4.35 times (provisional) as of March 31, 2018 though it is a significant improvement from 6.0 times in FY2017 and 11.5 times in FY2016; high gearing is attributed to low capital base of about Rs.1.37 crs in FY2018 (Provisional). Its TOL/TNW is high at 5.28 times in FY2018. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.71times and 0.13 times respectively in FY2018. Acuité believes that the financial risk profile is expected to deteriorate marginally over the medium term owing to management plans to expand the production capacity with debt-funded capital expenditure programme of about Rs.4.0 - 5.0 crores.

- **Highly competitive and fragmented industry**

Accura operates in a highly competitive and fragmented welding industry with unorganized sector presently occupies around 50-55 per cent of the market. Lack of standard specifications, and tedious approval process has resulted in spurt of unorganized players. With higher level of unorganized sector, there is lower pricing discipline in the industry. Also the profitability is linked to prices of key raw material - steel.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Accura Weldrods Kovai Pvt Ltd to arrive at the rating.

Outlook: Stable

Acuité believes that Accura will maintain 'Stable' outlook over the medium term on account of promoters established presence in the industry, and diverse retailer base. The outlook may revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its capital structure by equity infusion. Conversely, the outlook may revised to negative in case of higher-than-expected debt-funded capital expenditure or deterioration in its working capital cycle thus exerting pressure on the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	28.59	25.05	21.30
EBITDA	Rs. Cr.	1.61	1.36	1.24
PAT	Rs. Cr.	0.55	0.35	0.43
EBITDA Margin	(%)	5.64	5.42	5.82
PAT Margin	(%)	1.92	1.40	2.02
ROCE	(%)	20.48	18.24	17.96
Total Debt/Tangible Net Worth	Times	4.35	6.04	11.52
PBDIT/Interest	Times	2.71	2.32	2.14
Total Debt/PBDIT	Times	3.69	3.66	4.38
Gross Current Assets (Days)	Days	78	74	92

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

None

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	5.25	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.84	ACUITE BB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4

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About Acuité Ratings & Research:

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