

Press Release

Accura Weldrods Kovai Private Limited

September 17, 2019

Rating Reaffirmed



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

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B 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 (AWPL) is a private limited company based out of Coimbatore, Tamil Nadu engaged in manufacturing of welding electrodes. The firm is promoted by Mr Nanthagopal.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Accura Weldrods Kovai Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

Mr. Nanthagopal and Mr. Karpagam, founder promoters of the company, have been in the line of fabrication and welding segment for over a decade. The experience of the promoters along with healthy relations with customers and suppliers have helped the company in reporting a moderate growth in revenues at a compound annual growth rate (CAGR) of about 16 per cent over four years through FY2019 at Rs.32.29 crore (provisional). Also, the management plans to increase exports to Middle East countries, which is expected to help the company in improving scale of operations.

• Improvement in working capital management

The working capital cycle of AWPL has improved marked by GCA days of 87 days in FY2019 (Provisional) as against 101 days in FY2018. The company maintains total inventory of raw material inventory and finished goods of around 45 days, as the work in process cycle time is moderate. AWPL extends a credit period of around 45 days to its customers and realizes payments within 35-41 days. On the other hand, the company gets 15 days credit from its suppliers (majorly on advance payment terms). As a result, the reliance on working capital limits is a bit higher, leading to high utilisation of its bank lines at an average of 95 per cent over the last three months through August 2019.

Weaknesses

• Below average financial risk profile

AWPL's financial risk profile is below average, marked by a modest network, high gearing (debt-to-equity), and modest debt protection measures.

AWPL's network has remained modest at around Rs.2.38 crores as on March 31, 2019 (Provisional). The network levels have remained modest due to modest scale of operations and low operating margins, which has resulted in limited accretion to reserves over the last three years through FY 2019. Though, the revenues of the company are expected to remain in the range of Rs.37.4 to 45.2 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves. Acuite expects the network to remain modest in the range of Rs.2.9 to 4.5 crore over the medium term, in the absence of any equity infusion by the promoters.

AWPL has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 6.04 times as on March 31, 2017. The leverage levels have marginally improved to around 2.57 times as on March 31, 2019 (Provisional). The company incurred capex of Rs. 1.17 crore over the last three years in routine capital expenditure, while it generated cash accruals in the range of Rs. 0.59 – 0.78 crore over the same period. Lower accruals and accretions to reserves led to higher debt levels as on March 31, 2019. The gearing however is expected to remain high at around 2.1 times as on March 31, 2020 due to the accretion to reserves during the same period being low.

The revenues of the company increased by around 15 per cent to Rs.32.3 crore during 2018-19, while its operating margins remained stable in the range of 5.3-4.4 per cent. Moderate profitability coupled with high gearing level has led to modest debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were modest at 0.10 and 2.23 times, respectively.

• Highly competitive and fragmented industry

AWPL operates in a highly competitive and fragmented welding industry with unorganised sector occupying a large part of the market on account of lack of standard specifications and tedious approval process. With higher number of unorganized players, there is lower pricing discipline in the industry.

Liquidity position

AWPL has adequate liquidity marked by moderate net cash accruals to maturing debt obligations. AWPL generated cash accruals of Rs. 0.59 crore to Rs. 0.78 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.15 crore to Rs. 0.22 crore for the same period. The cash accruals of AWPL are estimated to remain around Rs. 1.0 crore to Rs.1.3 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 0.16 crore per annum. AWPL's operations are moderately working capital intensive, which has led to higher reliance on working capital borrowings as reflected by higher utilization of the cash credit limit, which is utilized at 95 per cent during the last 3 months' period ended August 2019. AWPL maintains unencumbered cash and bank balances of Rs. 0.55 crore as on March 31, 2019 (Provisional). The current ratio of AWPL stood healthy at 1.11 times as on March 31, 2019 (Provisional). AWPL is not likely to incur any major capex to be funded by external borrowing. Acuite believes that the liquidity of AWPL is likely to remain adequate over the medium term on account of no major repayments over the medium term.

Outlook: Stable

Acuite 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 be 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 be 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	32.29	28.02	25.05
EBITDA	Rs. Cr.	1.73	1.24	1.36
PAT	Rs. Cr.	0.43	0.32	0.35
EBITDA Margin	(%)	5.35	4.44	5.42
PAT Margin	(%)	1.32	1.15	1.40
ROCE	(%)	16.30	13.84	18.24
Total Debt/Tangible Net Worth	Times	2.57	3.08	6.04
PBDIT/Interest	Times	2.23	2.28	2.32
Total Debt/PBDIT	Times	3.55	4.83	3.66
Gross Current Assets (Days)	Days	87	101	74

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jul-2018	Cash Credit	Long Term	5.25	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.84	ACUITE BB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	0.01	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	0.75	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	5.25	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.84	ACUITE BB- / Stable (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4 (Reaffirmed)

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