

Cori Engineers Private Limited: Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	3.30	SMERA A-/Negative (Rating Reaffirmed; Outlook Revised)
Bank Guarantee	3.00	SMERA A2+ (Reaffirmed)
Letter of Credit	0.50	SMERA A2+ (Reaffirmed)

SMERA has reaffirmed the rating of '**SMERA A-**' (read as **SMERA A minus**) and '**SMERA A2+**' (read as **SMERA A two plus**) on the Rs.6.80 crore bank facilities of Cori Engineers Private Limited (CEPL). The outlook has been revised from 'Stable' to 'Negative'.

The revision in outlook is in view of the continuous deterioration in the company's operating margins and operating income. Further, the ongoing debt funded capital expenditure plan is expected to adversely impact the financial risk profile, going forward.

The ratings continue to draw comfort from the strong market position, extensive experience of promoters in the gasket manufacturing industry and above-average financial risk profile marked by healthy net worth and strong debt protection metrics. However, the ratings are constrained by the susceptibility of profitability to volatility in raw material prices.

Update

CEPL reported operating income of Rs.30.89 crore in FY2015-16 (provisional) against Rs.37.01 crore in the previous year, registering a decline of ~17 per cent. The raw material prices declined in FY2015-16 resulting in lower realisation for products sold. Further, the operating margin declined to 11.95 per cent in FY2015-16 (provisional) vis-à-vis 12.94 per cent in the previous year on account of low bargaining power with customers. The profitability continues to remain susceptible to volatility in raw material prices and changes in product mix.

However, CEPL, incorporated in 1981, benefits from its long standing presence in the gasket manufacturing industry. The company caters to reputed clients including Kirloskar Oil Engines Limited, Bharat Heavy Electricals Limited and Larsen & Toubro Limited. The financial risk profile continues to remain healthy marked by gearing of 0.02 times and interest coverage ratio of 8.63 times for FY2014-15. The gearing stands at 0.02 times and interest coverage at 5.69 times for FY2015-16 (provisional).

The company operates from a rented premise in Chennai but plans to shift operations to its own premises soon. Construction of the new premises commenced in August, 2016 and is expected to be completed by January, 2017. The total project cost of Rs.10.90 crore is expected to be funded by bank loan of Rs.5.00 crore and the rest through promoter's funds.

The company's liquidity remains comfortable with credit balance in the cash credit limit utilisation for the last six months ended August, 2016.

Rating Sensitivity Factors

- Scaling up operations while improving profitability
- Efficient working capital management

Criteria applied to arrive at the ratings:

- Manufacturing Entities

Outlook-Negative

SMERA believes that the outlook on CEPL will remain Negative over the medium term due to continuous decline in operating margin and operating income. The rating may be downgraded in case of further decline in operating margins and operating income or in case of significant deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable' if the company registers higher than expected growth in operating income along with improvement in operating margins while maintaining its financial risk profile.

About the Company

CEPL, incorporated in 1981, is engaged in the manufacture of rubber bellows, anti-vibration mounts, rubber lining and industrial rubber gaskets. The operations are managed by Mr. G. Krishna, Mr. R. V. Lakshmanan, Mr. R. K. Swamy and others.

In FY2014-15, CEPL reported profit after tax (PAT) of Rs.2.74 crore on operating income of Rs.37.01 crore as compared to PAT of Rs.2.77 crore on operating income of Rs.30.15 crore in the previous year. The company posted profit before tax of Rs.2.05 crore on operating income of Rs.30.89 crore for FY2015-16 (provisional).

Rating History:

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
18 August, 2015	Cash Credit	3.30	SMERA A- (Reaffirmed)	-	Stable
	Bank Guarantee	3.00	-	SMERA A2+ (Reaffirmed)	-
	Letter of Credit	0.50	-	SMERA A2+ (Reaffirmed)	-
9 May, 2014	Cash Credit	3.30	SMERA A- (Assigned)	-	Stable
	Bank Guarantee	3.00	-	SMERA A2+ (Assigned)	-
	Letter of Credit	0.50	-	SMERA A2+ (Assigned)	-

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ABOUT SMERA

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