Press Release

CORI ENGINEERS PRIVATE LIMITED

16 January, 2018

Rating Downgraded

Total Bank Facilities Rated*	Rs. 6.80 Cr.
Long Term Rating	SMERA BBB+ / Outlook: Stable
Short Term Rating	SMERA A2+

** Refer Annexure for details*

Rating Rationale

SMERA has downgraded the long-term rating of **'SMERA A-' (read as SMERA A minus)** on the Rs. 6.80 crore bank facilities of CORI ENGINEERS PRIVATE LIMITED (CEPL) to **'SMERA BBB+' (read as SMERA triple B plus)** and reaffirmed the short term rating of **'SMERA A2+' (read as SMERA A two plus).** The outlook is **'Stable'**.

CEPL, incorporated in 1981 is a Tamil Nadu-based company 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.

The downgrade is in view of continuous decline in profitability. Any further decline in profitability or liquidity may entail a downward revision in the rating. The rating takes comfort from the established presence in the industry along with comfortable liquidity position.

Key Rating Drivers

Strengths

- **Established track record, experienced management**
  CEPL, incorporated in 1981 is promoted by Mr. G. Krishna, Mr. R. V. Lakshmanan, Mr. R. K. Swamy and others. The directors have more than three decades of experience in the engineering goods industry. The long track record has helped CEPL establish relations with reputed clientele including Kirloskar Oil Engines Ltd- Kolhapur, TATA Steel Ltd. Larsen & Toubro Ltd B.H.E.L - Bhopal, etc.

- **Comfortable financial risk profile**
  The financial risk profile is comfortable marked by moderate net worth of Rs. 25.77 crore as on 31 March, 2017 compared to Rs. 23.00 crore as on 31 March, 2016. This includes Rs. 1.64 crore as on 31 March, 2017 of unsecured loans from promoters treated as quasi equity. The gearing (debt-equity) stood moderate at 0.06 times as on 31 March, 2017 compared to 0.02 times as on 31 March, 2016. The total debt of Rs. 1.46 crore as on 31 March, 2017 consists of loans from bank of Rs. 0.32 crore, working capital borrowings of Rs. 0.75 crore and unsecured loans of Rs. 0.38 crore. The Interest Coverage Ratio (ICR) stood at 10.46 times for FY2017 as against 6.27 times for FY2016. SMERA believes that CEPL will maintain comfortable financial risk profile on the back of comfortable liquidity position and ongoing capex.

Weaknesses

- **Moderate scale of operations and profitability**
  CEPL sells industrial rubber gaskets under the registered trademark 'CORIRUBBER ®'. The company posted growth in revenue to Rs.37.53 crore in FY2017 from Rs.32.63 crore in FY2016 mainly due to increase in rubber lining services. The company registered decline in profitability. The operating margins (EBIDTA) declined to 11.03 per cent in FY2017 from 12.60 per cent in FY2016 mainly due to increase in the proportion of service income to total operating income compared to the previous year. The Profit after tax

(PAT) margins stood at 10.29 per cent in 2017 as against 6.36 per cent in 2016. The PAT margins in FY2017 were supported by one time profit from sale of assets of Rs. 2.86 crore. The adjusted PAT margin stood at 2.66 per cent in 2017 thus registering significant decline in profitability. SMERA believes that further decline in profitability may have a downward pressure on rating.

- **Working capital intensive operations**

The company has high working capital requirements reflected in the high Gross Current Assets (GCA) of 163 days (PY: 196 days) in FY2017 on account of high debtors of 100 days in FY2017 as against 117 days in FY2016. The inventory days stood at 45 in FY2017 as against 62 in FY2016. The company gets credit of 30-60 days from suppliers which moderates the working capital requirements. The working capital limit utilisation has been comfortable for the six months ended November 2017.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the company.

Outlook: Stable

SMERA believes that the outlook on CEPL will remain stable over the medium term owing to its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or further deterioration in profitability thereby affecting the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	37.53	32.63	37.01
EBITDA	Rs. Cr.	4.14	4.11	4.79
PAT	Rs. Cr.	3.86	2.08	2.74
EBITDA Margin	(%)	11.03	12.60	12.94
PAT Margin	(%)	10.29	6.36	7.41
ROCE	(%)	26.19	18.65	40.82
Total Debt/Tangible Net Worth	Times	0.06	0.02	0.02
PBDIT/Interest	Times	10.46	6.27	8.63
Total Debt/PBDIT	Times	0.20	0.08	0.08
Gross Current Assets (Days)	Days	163	196	169

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
	Cash Credit	Long Term	INR 3.3	SMERA A- / Negative (Reaffirmed,

12-Oct-2016				Outlook: Revised from Stable)
	Bank Guarantee	Short Term	INR 3	SMERA A2+ (Reaffirmed)
	Letter of Credit	Short Term	INR 0.5	SMERA A2+ (Reaffirmed)
18-Aug-2015	Cash Credit	Long Term	INR 3.3	SMERA A- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	INR 3	SMERA A2+ (Reaffirmed)
	Letter of Credit	Short Term	INR 0.5	SMERA A2+ (Reaffirmed)
09-May-2014	Cash Credit	Long Term	INR 3.3	SMERA A- / Stable (Assigned)
	Letter of Credit	Short Term	INR 0.5	SMERA A2+ (Assigned)
	Bank Guarantee	Short Term	INR 3	SMERA A2+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.30	SMERA BBB+ / Stable (Downgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A2+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A2+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Leena Gupta Analyst - Rating Operations Tel: 022-67141172 leena.gupta@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

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