

Emson Tools Manufacturing Corporation Limited

September 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	24.22 (Reduced from 29.00)	CARE BB-; Stable	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Short Term Bank Facilities	4.00 (Enhanced from 1.00)	CARE A4	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed

Details of instruments/facilities in Annexure-1.

In the absence of minimum information required for the purpose of rating, CARE Ratings Limited was unable to express an opinion on the ratings of Emson Tools Manufacturing Corporation Limited and in line with the extant SEBI guidelines, CARE Ratings Limited reaffirmed the ratings of bank facilities of the company to 'CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING'. However, the company has now submitted the requisite information to CARE Ratings Limited. CARE Ratings Limited has carried out a full review of the ratings and the ratings stand at 'CARE BB-; Stable / CARE A4'.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Emson Tools Manufacturing Corporation Limited (ETMCL) continues to remain constrained by its modest scale of operations, low profitability margins, weak debt coverage indicators and elongated operating cycle. Further, the ratings continue to remain constrained by risk associated with foreign exchange fluctuation risk, susceptibility of margins to volatility in raw material prices and its presence in a highly competitive automotive industry.

The ratings, however, continue to draw comfort from experienced promoters coupled with long track record of operations, long-standing relationship with diversified customer profile and moderate capital structure of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations as marked by total operating income of above Rs.120.00 crore on sustained basis.
- Improvement in profitability margins as marked by PBILDT margin of above 5.00% on a sustained basis.
- Improvement in the capital structure as marked by overall gearing ratio of below 1.20x.

Negative factors

- Decline in profitability margins as marked by PBILDT margin of below 4.00% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio of above 2.00x.
- Elongation in the operating cycle of the company beyond 200 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the entity will continue to benefit from its promoter's extensive experience and established relationships with its customers.

Detailed description of the key rating drivers:

Key weaknesses

Modest scale of operations: ETMCL's scale of operations continues to remain modest with total operating income (TOI) of Rs.94.03 crore and gross cash accruals (GCA) of Rs.2.04 crore respectively, during FY24 (FY refers to the period April 1 to March 31; based on provisional results) (PY: Rs.100.34 crore and Rs.1.19 crore respectively). The decline in TOI is due to lower volume sales particularly from the exports market as the European markets witnessed subdued demand from automobile segment. The modest scale limits the company's financial flexibility in times of stress and deprives it of the benefits arising out of economies of scale. Further, the company has achieved total operating income of ~Rs.35.00 crore during 5MFY25 (refers to the period from April 1, 2024 to August 31, 2024; based on provisional results) and is expected to achieve a turnover of more

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

than ~Rs.100.00 crore for FY25 on account of improvement in demand wherein industry is poised to sustain its sales momentum and company is having an order book of ~Rs.30.00 crore to be completed by October, 2024.

Low profitability margins and weak debt coverage indicators: The profitability margins of the company stood low and remained range bound between 4%-6% for the last three financial years (FY22-FY24) on account of its presence in a highly competitive nature of industry leading to limited bargaining power with its customers. PBILDT margin of the company has improved and stood at 5.25% in FY24 as against 4.24% in FY23 on the back of proportionate decline in overheads. Further, PAT margin also improved and stood at 0.72% in FY24 as against 0.28% in FY23.

Further, the debt coverage indicators of the company continue to remain weak as marked by interest coverage ratio and total debt of GCA which stood at 1.75x and 15.49x respectively, in FY24 (P.Y.: 1.64x and 23.98x respectively). The improvement is on account of high PBILDT leading to higher gross cash accruals.

Elongated operating cycle: The operations of the company continue to remain elongated as marked by operating cycle of 143 days for FY24 (P.Y.: 126 days). Owing to large product portfolio, the company is required to maintain adequate inventory in the form of raw material to ensure smooth production process as well as maintain stock of finished products in order to meet the immediate demand of the customers which resulted in an average inventory holding period of around 113 days for FY23. Further, owing to its presence in highly competitive industry, the firm has to offer liberal credit period of around a 2-3 months to its customers wherein; there is generally delay in the realizations from the railways segment; since the year end payments are made in the next financial year once the budget is allocated to the department. Further, the company receives payable period of around 2-3 month from its suppliers.

Foreign exchange fluctuation risk: The profitability margins of ETMCL are exposed to foreign exchange fluctuation risk, as the company derives its revenue from export markets also which stood ~17% in FY24 (PY: 19%). However, the raw material is mainly procured from domestic markets. With initial cash outlay for procurement in domestic currency and significant chunk of sales realization in foreign currency, ETMCL is exposed to the fluctuation in exchange rates which the company does not hedge. Thus, ETMCL's operating margins and cash accruals remains vulnerable to the adverse fluctuation in exchange rates. Further, the company has recorded gain of Rs.0.39 crore in FY24 as against Rs.0.19 crore in FY23 due to favourable foreign currency fluctuations.

Susceptibility of margins to volatility in raw material prices: ETMCL operates in an industry wherein the raw material cost is one of the major cost drivers and hence, any sharp volatility in raw material prices may negatively impact the company's profitability. The major raw materials for the company are alloy steel and non-alloy steel, etc., the prices of which remain volatile. The company does not enter into any long-term agreement for procurement of these raw materials and sources its raw material on requirement basis from the domestic market at prevailing market prices thereby, exposing it to any sharp volatility in prices, which may also have a direct bearing on operating margins of the company. Though, the company tries to pass on the price volatility to the end users through price revision mechanism from its customers, any sudden adverse fluctuations in raw material prices may not be passed on to customers completely owing to company's presence in highly competitive industry and may adversely affect the profitability of the company. Furthermore, the domestic steel prices are currently hovering around a marginal discount to international prices, as domestic steelmakers believe any further increase in the prices may weigh down their domestic sales volumes.

Presence in a highly competitive automotive industry: ETMCL operates in a highly competitive industry wherein there is presence of a large number of players in the organized as well as unorganized sectors. The industry is characterized by low entry barriers due to low technological inputs and easy availability of standardized machinery for the production. Furthermore, the auto component industry is largely unorganized in structure, consisting of around 45-50% of the overall industry size. While the organized segment primarily caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.

Key strengths

Experienced promoters coupled with long track record of operations: ETMCL is a family run business. The company is currently managed by Mr. Abhinav Dhall, Mrs. Devender Dhall and Ms. Priya Dhall. Mr. Abhinav Dhall is M.B.A. by qualification and holds experience of around two decades in the metal forged components manufacturing business and looks after the overall operations of the company. Mrs. Devender Dhall and Ms. Priya Dhall are graduates by qualification and holds experience of more than two decades in the metal forged components manufacturing business and looks after the general administration. This long-standing experience and expertise in the industry has enabled them to establish good relationship with its customers over the years which has enabled it to garner repeat orders.

Long-standing relationship with diversified customer profile: ETMCL has been operational for more than two decades in metal forged components manufacturing business and has been able to establish healthy relationship with its customers. In light of the established relationship, the company managed to get repeat orders from its customers. The top nine customer concentration risk stood moderate ~45%, with no individual customer contributing more than 20% of total sales in FY24. Aided by its diversified customer base, the company does not have reliance on any single customer pertaining to its revenue source, which in turn stabilize their financial position, and thereby reduces the risk of financial vulnerability arises due to concentration in from any particular customer in near future.

Moderate capital structure: The capital structure of the company stood moderate as marked by overall gearing ratio which stood at 1.63x as on March 31, 2024 showing deterioration from 1.53x as on March 31, 2023 mainly on account of higher utilization of working capital borrowings during the year. Further, the capital structure is expected to remain at moderate levels in the near to medium term.

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by elongated operating cycle which led to high average utilization of its working capital limits which remained almost 90%-95% utilized for the past 12 month's period ending July, 2024. Further, the company has tightly matched accruals vis-à-vis repayment obligations. The company has reported net cash accruals (NCA) to the extent of Rs.2.04 crore during FY24 and is expected to generate envisage GCA of ~Rs.2.25 crore for FY25 against repayment obligations of Rs.2.20 crore in same year. However, the company has buffer in the form of free cash & bank balances which stood at Rs.0.50 crore and positive cash flow from operations to the tune of Rs.1.82 crore as on March 31, 2024. Further, the company does not have any significant capex plan in the near term.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Ludhiana (Punjab) based, Emson Tools Manufacturing Corporation Limited (ETMCL) was incorporated as a private limited company in April, 1996. The company is currently being managed by Mrs. Devender Dhall, Mr. Abhinav Dhall and Ms. Priya Dhall. It is engaged in the manufacturing of metal forged components such as bale spears, connecting rods, gears, shafts, shifting fork, screw couplings, brake block hanger, etc. The manufacturing facility of the company is located at Ludhiana, Punjab with an installed capacity to manufacture 14,400 metric tonnes (MT) per annum of metal forgings, as on March 31, 2024. The products manufactured by the company find its application in diverse sectors such as automobile sector, railway segment, agriculture sector, etc. The company is generating ~60% of its revenue from automobile sector itself. The company procures orders from Indian Railways through the bidding process.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	5MFY25 (Prov.)*
Total operating income	100.34	94.03	35.00
PBILDT	4.25	4.93	NA
PAT	0.28	0.67	NA
Overall gearing (times)	1.53	1.63	NA
Interest coverage (times)	1.64	1.75	NA

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'

*refers to the period from April 1, 2024 to August 31, 2024.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	18.50	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	February, 2037	5.72	CARE BB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	4.00	CARE A4

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	18.50	CARE BB-; Stable	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (21-Aug-24)	1)CARE BB-; Stable (29-May-23)	-	-
2	Fund-based - LT-Term Loan	LT	5.72	CARE BB-; Stable	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (21-Aug-24)	1)CARE BB-; Stable (29-May-23)	-	-
3	Non-fund-based - ST-BG/LC	ST	4.00	CARE A4	1)CARE A4; ISSUER NOT COOPERATING* (21-Aug-24)	1)CARE A4 (29-May-23)	-	-

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of the covenants of the rated instrument/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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