

## Cnc India Tools And Services Private Limited

October 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	5.49 (Reduced from 6.57)	CARE BB; Stable	Upgraded from CARE BB-; Stable
Short Term Bank Facilities	16.00	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the long term rating assigned to the bank facilities of CNC India Tools and Services Private Limited (CITSPL) factors in the consistent improvement in the scale of operations of the company owing to strong demand from reputed clients and its long-standing relationship with the companies operating in auto and defence sectors. The rating also factors in company's improving operating cycle and debt coverage indicators aided by prudent inventory management. CARE Ratings Limited (CARE Ratings) expects that the company would continue to improve its sales volume backed by anticipated healthy demand from the auto and defence sectors and increasing demand for automation. The rating strengths, however, are partially offset by its modest net worth base, fluctuating profit margins owing to tender driven nature of the business its presence in highly fragmented and competitive industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in scale of operations above Rs. 150 crore while maintaining TDGCA (Total Debt / Gross Cash Accruals) less than 2x

#### Negative factors

- Increase in debt levels resulting in deterioration of TOL/TNW (Total outside liability / total net worth) beyond 3.5x
- Sales lower than Rs. 70 Cr or decline in PBILDT margin below 5%.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings Limited believes that CITSPL will continue to sustain its scale of operation aided by healthy demand in automotive and defence sector.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Tender driven nature of business and fluctuating margins

The company operates in the type of business where margins vary from customer to customer due to tender based allocation of orders with variability in the margins. Maintaining the same levels of margins is very hard in this type of industry as the company operates into the selling, fixing and servicing of capital machinery. Moreover, company design special purpose machines as per individual customer quality and specification requirement which also limits company's bargaining power.

##### Highly fragmented and competitive industry

The company is operating in a fragmented and competitive industry where the company witness's competition from both the organized and largely unorganized players. This fragmented and competitive industry results into price competition thereby affecting the profitability margins of the companies operating in the industry.

##### Modest net worth base limiting its financial flexibility

CITSPL has a modest net worth base of Rs. 12.99 crore which limits its ability to scale up as well as its financial flexibility.

#### Key strengths

##### Improving scale of operations and profitability margins

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

CITSL witnessed significant growth in FY23 supported by strong growth from auto and defence sector. The company reported TOI growth of 31% YoY to Rs. 91.75 Cr in FY24 (A) as compared to Rs 70.25 Cr in FY23(A). As the company majorly supply its products to the automobile industry, company has witnessed increase in sales volume during FY24. PBILDT margin improved to 7.24% in FY24 against 6.93% in FY23 on account of economies of scale. It has achieved a turnover of Rs. 13.26 in Q1FY25 and has adequate orders in hand to sustain its increased scale of operations.

#### Improved debt coverage indicators

The debt coverage indicators marked by total debt/GCA and interest coverage ratio improved significantly during the year and stood at 2.36x and 4.04x as on March 31, 2024 when compare to 6.62x and 3.36x as on March 31, 2023, due to increase in sales volume and repayment of debt.

#### Reputed clientele and established relations with clients

Over the past two decades, CIT SPL has established healthy relationships with its customer base which includes industry leaders such as TVS Motor Co. Ltd, Mahindra and Mahindra, DRDO, Cummins Technologies India Pvt Ltd., and other reputed automobile and defence agencies which helps them in getting repeated orders and there is a low risk of bad debt to the company.

#### Liquidity: Stretched

Liquidity is stretched, marked by moderate current ratio, and healthy cash accruals against low debt repayments. While the current ratio was at 1.22x, its quick ratio remained comfortable at 1.11x as on March 31, 2024. Liquidity is constrained by its modest net worth base against total debt. Company's cash balance stood at Rs. 5.02 crore as on March 31, 2024.

#### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

#### About the company and industry

##### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

CIT SPL was set up as a partnership firm in 1993 by Shri J. Nagarajan, Shri C.J. Badrinath and Shri J. Vijayakumar of Bengaluru, Karnataka. Subsequently on February 02, 2004, the firm was converted into private limited firm. The firm is engaged in manufacturing of machine tools and servicing & maintenance of electrical equipment. The product portfolio largely comprises of cutting tools, jigs & fixtures, electrical panel & boards, special purpose machine, etc.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	70.25	91.75	13.26
PBILDT	4.87	6.64	NA
PAT	2.30	3.41	NA
Overall gearing (times)	1.88	0.72	NA
Interest coverage (times)	3.36	4.04	NA

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	3.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	-	30-07-2027	2.49	CARE BB; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	16.00	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	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (28-Sep-21)
2	Fund-based - LT-Cash Credit	LT	3.00	CARE BB; Stable	-	1)CARE BB-; Stable (20-Sep-23)	1)CARE B; Stable; ISSUER NOT COOPERATING* (05-Dec-22)	1)CARE B+; Stable (28-Sep-21)
3	Non-fund-based - ST-Bank Guarantee	ST	16.00	CARE A4	-	1)CARE A4 (20-Sep-23)	1)CARE A4; ISSUER NOT COOPERATING* (05-Dec-22)	1)CARE A4 (28-Sep-21)
4	Fund-based - LT-Term Loan	LT	2.49	CARE BB; Stable	-	1)CARE BB-; Stable (20-Sep-23)	1)CARE B; Stable; ISSUER NOT COOPERATING* (05-Dec-22)	1)CARE B+; Stable (28-Sep-21)

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

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/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-Bank Guarantee	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

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