

Craftsman Automation Limited

February 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term bank facilities	540.12 (reduced from 616.87)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Positive (Triple B; Outlook: Positive)
Short term bank facilities	182.00	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total Facilities	722.12 (Rupees Seven Hundred and Twenty Two Crore and Twelve Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Craftsman Automation Limited (CAL) factors in strong operating performance of the company marked by significant growth in operating income during FY18 (refers to the period April 1 to March 31) and H1 FY19 (refers to the period April 1 to September 30) with improved profitability in H1 FY19.

The ratings continue to derive strength from the vast experience of the promoter of CAL, long operational track record of more than three decades in engineering contract manufacturing business, diverse business profile catering to various industries aided by strong engineering and product development capabilities, strong business association with reputed OEM's and CAL's continuous thrust on diversifying its customer base.

The ratings however are constrained by the moderate leverage levels on account of the debt funded capital expenditure over the past due to capital intensive nature of the industry. The ratings also take note of the moderate liquidity ratios due to frequent debt funded capital expenditure, working capital intensive nature of operations and cyclical nature of the auto industry.

Going forward, ability of CAL to increase its scale of operations by effectively utilizing its capacities, maintain its profit margins would remain the key rating sensitivities. CARE also notes that the company is planning an Initial public offering which apart from raising fresh equity capital would also include an offer for sale component. Successful completion of the IPO and improvement in capital structure and liquidity position would also be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter & long operational track record of more than three decades: Mr S Ravi, Managing Director is a mechanical engineering graduate with over three decades of experience. CAL has diversified the business into various business/product segments under the leadership of Mr Ravi. Since 1996, the company is into export of products to overseas markets and has diversified its domestic presence by establishing satellite units at various parts of the country.

Diversified business profile catering to various industries: CAL caters to the needs of various industries such as commercial vehicle , farm equipment, construction equipment, sports utility vehicles, two wheelers, power transmission switch gear , textile, packaging & printing machinery , marine, material handling, pumps & valves, industrial gears & gear boxes, mould base, plastic injection moulding, industrial storage diesel locomotive, special purpose machines etc. Automotive segments consisting of Automotive Power Train and Automotive Aluminium products accounted for the largest share in the total income at 73% for FY18

Strong business association with a diverse set of reputed OEM's: CAL has developed strong relationships with large OEMs in both the domestic and international markets and at present possess a clientele base of over 20 OEMs including Tata Motors Group, Mahindra & Mahindra, Ashok Leyland, Daimler India Commercial Vehicles, Eicher Motors Limited, TVS Motors, Nissan Motors, Caterpillar etc.

Growth in operating income with improved profit margins during 9mFY19: During FY18, the operating income of CAL had grown by 34.66% from Rs.1103.5 crore in FY17 to Rs.1486 crore in FY18. During H1 FY19 (Audited), the company reported total income of Rs.895.2 crore (annualized growth rate of 36%) over FY18. The PBILDT margin which declined

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

marginally from 21.18% in FY17 to 19.53% in FY18 improved to 24.30% during 9mFY19 on the back of improved sales from machining and better margin due to high volumes.

Key Rating Weaknesses

Moderate capital structure due to frequent capital expenditure supported by debt funding: CAL business is capital intensive and has been incurring largely debt funded capital expenditure in the recent past leading to a moderate capital structure as reflected by an overall gearing of 1.41x as on March 31, 2018 (PY:1.34x).

Moderate liquidity: The operations of CAL are working capital intensive in nature with the need to maintain consumable stores & machinery spares which constitutes nearly 50% of the inventory. The current ratio was low at 0.65x (PY: 0.66x) as on March 31, 2018 on account of the frequent capital expenditure and margin contribution towards the same. The company had free cash balance of Rs.33.69 crore (PY: 21.74 crore) as on March 31, 2018. The company had plans for IPO issue which includes fresh issue of equity shares aggregating up to Rs.400 crore and an offer for sale of up to 43,83,320 shares of CAL by some existing shareholders.

Cyclical nature of the auto industry: The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the interest rates and fuel prices. The Indian auto components industry is ancillary to the automobile industry. Demand swings in any of the auto segments (Commercial vehicles, cars, two-wheelers) have an impact on the auto ancillary demand.

Analytical approach: Standalone

Applicable Criteria

[Rating Methodology - Auto Ancillary Companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's methodology for manufacturing companies](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

CAL was incorporated in 1986 by Mr S Ravi (Chairman & Managing Director) a first-generation entrepreneur from Coimbatore, Tamil Nadu. The business CAL consists of three main segments viz. Automotive Power Train, Automotive - Aluminium Products and Industrial and Engineering. The Automotive Power Train caters to the high-end machining needs of the commercial vehicle, farm equipment, mining and construction equipment and sports utility vehicle segments of the automobile industry and has a well-diversified client profile. The Automotive Aluminium segment supplies machined aluminium components to two and four wheeler manufacturers. The Industrial and Engineering segment has eight sub segments and caters to wide variety of customers.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,103.5	1,486.0
PBILDT	233.7	290.2
PAT	75.4	32.1
Overall gearing (times)	1.34	1.41
Interest coverage (times)	2.61	2.66

A: Audited;

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	January 2024	332.12	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	208.00	CARE BBB+; Stable
Fund-based - ST-Packing Credit in Indian rupee	-	-	-	82.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	100.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	332.12	CARE BBB+; Stable	1)CARE BBB; Positive (06-Apr-18)	1)CARE BBB; Stable (05-May-17)	1)CARE BBB+ (19-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	208.00	CARE BBB+; Stable	1)CARE BBB; Positive (06-Apr-18)	1)CARE BBB; Stable (05-May-17)	1)CARE BBB+ (19-Apr-16)	-
3.	Fund-based - ST-Packing Credit in Indian rupee	ST	82.00	CARE A2	1)CARE A3+ (06-Apr-18)	1)CARE A3+ (05-May-17)	1)CARE A3+ (19-Apr-16)	-
4.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A2	1)CARE A3+ (06-Apr-18)	1)CARE A3+ (05-May-17)	1)CARE A3+ (19-Apr-16)	-

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