Craftsman Automation Private Limited

April 6, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	616.87 (reduced from 748.03)	**CARE BBB; Positive (Triple B; Outlook: Positive)**	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short term bank facilities	182	**CARE A3+ (A Three Plus)**	Reaffirmed
Total Facilities	**798.87 (Rupees Seven Hundred and Ninety Eight Crore and Eighty Seven Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Craftsman Automation Private Limited (CAPL) continue to derive strength from the vast experience of the promoter of CAPL, long operational track record of more than two 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 CAPL's continuous thrust on diversifying its customer base.

The ratings however are constrained by the moderation in profitability indicators during FY17 (refers to the period April 1 to March 31) and 9mFY18 (refers to the period April 1 to December 31) and increase in leverage levels on account of the large debt funded capital expenditure being undertaken. 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 CAPL to increase its scale of operations by effectively utilizing its capacities, improve its profit margins and capital structure, would remain the key rating sensitivities.

The outlook is 'Positive' as going forward, CARE believes that with the uptick in the domestic auto industry especially in the commercial vehicle and farm equipment segments, CAPL with its enhanced capacities, is well poised to cater to the incremental demand thereby scaling up operations and improving profitability. The outlook may be revised to 'Stable' in case the company is unable to scale up operations or improve profitability as envisaged or takes up any large-scale debt-funded capital expenditure which will have an effect on its leverage position.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter & long operational track record of more than two decades: Mr S Ravi, Managing Director is a mechanical engineering graduate with more than 25 years of experience. CAPL 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: CAPL caters to the needs of various industries such as automobile, farm equipment, locomotive, construction equipment, power transmission, textile, printing, marine, material handling, pumps & valves, industrial gears & gear boxes, mould base, industrial storage etc. Automotive segment accounted for the largest share in the total income at 51% for FY17

Strong business association with a diverse set of reputed OEM's: CAPL 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 Limited, Ashok Leyland, Daimler India Commercial Vehicles, Eicher Motors Limited, TVS Motors, Nissan Motors etc.

Key Rating Weaknesses

Decline in profitability during FY17 and 9mFY18: the PBILDT margin declined from 25.84% in FY16 to 21.59% in FY17 due to incremental sales mainly in the form of sales of products whose operating margins are lesser than machining activity. During 9mFY18 (Prov.), CAPL reported operating income of Rs.1050.3 crore. The PBILDT margin stood at 18.56% during 9mFY18.

Frequent capital expenditure supported by debt funding: CAPL belongs to the capital intensive engineering industry 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 1.34x as on March 31, 2017.

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

Working capital intensive nature of operations: The operations of CAPL are working capital intensive in nature with the need to maintain consumable stores & machinery spares which constitutes nearly 50% of the inventory. CAPL had an average inventory period of 84 days for FY17 (PY: 82 days). The current ratio was low at 0.67x (PY: 0.70x) as on March 31, 2017 on account of the frequent capital expenditure and margin contribution towards the same.
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
CAPL was incorporated in 1986 by Mr S Ravi (Managing Director) a first-generation entrepreneur from Coimbatore, Tamil Nadu. CAPL caters to the high end machining needs of the engineering sector (power train of commercial vehicles, farm equipment, windmill, industrial) and automobile industry with diversified client profile across both the sectors. The company machines a wide variety of products including cylinder block, cylinder head and transmission products for commercial vehicles (CV), Sports Utility Vehicle (SUV), precision engineering products for aero and space applications etc.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	890.5	1,103.5
PBILDT	230.1	238.3
PAT	39.4	72.9
Overall gearing (times)	1.20	1.34
Interest coverage (times)	3.01	2.53

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Cash Credit	-	-	-	208.00	CARE BBB; Positive
Fund-based - LT-Term Loan	-	-	January 2024	408.87	CARE BBB; Positive
Non-fund-based - ST-BG/LC	-	-	-	100.00	CARE A3+
Fund-based - ST-Packing Credit in Indian rupee	-	-	-	82.00	CARE A3+

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	408.87	CARE BBB; Positive	-	1)CARE BBB; Stable (05-May-17)	1)CARE BBB+ (19-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	208.00	CARE BBB; Positive	-	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 A3+	-	1)CARE A3+ (05-May-17)	1)CARE A3+ (19-Apr-16)	-
4.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A3+	-	1)CARE A3+ (05-May-17)	1)CARE A3+ (19-Apr-16)	-

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