Craftsman Automation Private Limited

May 5, 2017

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	748.03 (enhanced from 580.88)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Revised from CARE BBB+ (Triple B Plus)
Short-term Bank Facilities	182 (enhanced from 158)	**CARE A3+ (A Three Plus)**	Reaffirmed
Total Facilities	**930.03 (Rupees Nine Hundred and Thirty Crore and Three Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Craftsman Automation Private Limited (CAPL) factor in the moderation in profitability indicators during FY16 (refers to the period April 1 to March 31) and 9mFY17 (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, susceptibility of profitability to exchange rate fluctuations, working capital intensive nature of operations and cyclical nature of the auto industry.

The ratings 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.

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.

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, electrical 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 56% for FY16

Strong business association with a diverse set of reputed OEM's

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

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 FY16 and 9mFY17

The PBILDT margin has declined from 27.83% in FY13 to 25.39% in FY15 and moderately to 25.01% in FY16. Also during 9MFY17, the company's PBILDT margin dropped significantly to 19.25%. The drop in PBILDT margin and significant capital charge in the form of interest and depreciation costs have led to the company reporting a minimal PAT of Rs.2.2 crore on a total operating income of Rs.754.4 crore in 9mFY17.

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 1.36x as on March 31, 2016. With capital expenditure of nearly Rs.270 crore in FY17 and about Rs.90 crore expected in FY18 largely funded by debt, the capital structure is expected to be remain moderate going forward as well.

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 101 days for FY16 (PY: 91 days).

The current ratio was low at 0.75x (PY: 0.70x) as on March 31, 2016 on account of the frequent capital expenditure and margin contribution towards.

Susceptibility of profitability to exchange rate fluctuations

During FY16, the company had export revenue in USD/EURO of Rs.160 crore whereas the outgo in USD in terms of debt repayments and imports of raw material and capital goods was Rs.204.2 crore making it a net importer thus exposing it to foreign currency movements.

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. In 2015-16, India's annual production stood at 23,960,940 vehicles (including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycle) as against 23,358,047 in 2014-15, registering a sluggish growth of 2.6% y-o-y.

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 (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 and cylinder head for commercial vehicles (CV), Sports Utility Vehicle (SUV), precision engineering products for aero and space applications etc.

During FY16, CAPL reported PAT of Rs.32.1 crore on total income of Rs.879.1 crore as against Rs.52.5 crore and Rs.775.5 crore respectively in FY15. During 9mFY17 (Provisional), CAPL reported PAT of Rs.2.2 crore on total income of Rs.754.4 crore

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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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	540.03	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	208.00	CARE BBB; Stable
Fund-based - ST-Packing Credit in Indian rupee	-	-	-	82.00	CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	100.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	540.03	CARE BBB; Stable	-	1)CARE BBB+ (19-Apr-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	208.00	CARE BBB; Stable	-	1)CARE BBB+ (19-Apr-16)	-	-
3.	Fund-based - ST-Packing Credit in Indian rupee	ST	82.00	CARE A3+	-	1)CARE A3+ (19-Apr-16)	-	-
4.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A3+	-	1)CARE A3+ (19-Apr-16)	-	-

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