

Fitwel Tools and Forgings Private Limited

December 04, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based facilities	13.75	18.25	[ICRA]A- (Stable); reaffirmed
Term Loan	0.50	0.50	[ICRA]A- (Stable); reaffirmed
Non fund based facilities	2.75	2.75	[ICRA]A2+ ; reaffirmed
Total	17.00	21.50	

Rating action

ICRA has reaffirmed long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 18.25 crore (enhanced from Rs. 13.75 crore) long term fund based facilities on the Rs. 0.50 crore term loan of Fitwel Tools and Forgings Private Limited (FTPL/ the company). ICRA has also reaffirmed a short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 2.75 crore¹ non-fund based facilities of Fitwel Tools and Forgings Private Limited (FTPL/ the company)². The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation favourably factors in FTPL's strong parentage with 70% shareholding by Sansera Engineering Private Limited (SEPL; rated [ICRA]AA- (Stable)/ [ICRA]A1+), long track record of the company, in addition to the extensive experience of the management in the automotive and forging business. The ratings also continues to factor FTPL's healthy product mix and established relationship with reputed customers and suppliers; which has supported the business prospects of the company.

However, the ratings are constrained by the company's modest scale of operations along with the revenue de-growth to the extent of 2.2% during FY2017 primarily on account of demonetization during H2 FY2017 which resulted in lesser than expected take off from its customers. The company had also made a relatively higher payout to its employees resulting in decline of company's operating margins from 8.8% in FY2016 to 7.0% in FY2017. Further, high competitive intensity in the industry restricts the company's pricing flexibility and in turn, its margins. ICRA also notes that FTPL continues to derive about 75% of its revenues from top three customers indicating significant client concentration and making it vulnerable to inherent volatility in the Indian automobile industry. The company's financial profile is characterized by moderate debt indicators with gearing of 1.7x and Total Debt/OPBITDA of 6.6x as on March 31, 2017. In addition, FTPL has planned debt funded capex of Rs. 7.5 crore during FY 2018 towards up gradation of machinery and capacity expansion which is likely to further impact the debt profile of the company. FTPL also has large debt repayment obligation to the tune of Rs. 3.4 crore and Rs. 3.1 crore during FY2018 and FY2019 respectively. Going forward, FTPL's ability to scale up its business while also improving its margins and debt indicators will be a key rating sensitivity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes FTPL will continue to benefit from the strong parentage support from Sansera Engineering Private Limited and extensive experience of its management. Accordingly, a stable outlook is assigned on the long term rating for the company.

The outlook may be revised to 'Positive' if there is a significant improvement in financial risk profile of the company supported by healthy growth in revenue and profitability in conjunction with better working capital management. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if there is further stretch in the working capital cycle, leading to deterioration in liquidity position.

Key rating drivers

Credit strengths

Strong support from parent company – FTPL enjoys significant operational and financial flexibility by virtue of being a 70% subsidiary of SEPL. FTPL has had a steady inflow of orders from Sansera Engineering Private Limited which contributes to about 22-25% of the company's revenues there by supporting the company in sustaining its wallet share in the auto industry

Strong and experienced management team - Mr. D.R Subramanya and Mr. D. Anantha, and the management team have an extensive experience in the automotive and forging business, enabling the company to carry out its operations with focused guidance.

Strong relationship with its customers and suppliers - FTPL has established relationships with its customers which have helped the company in sustaining its wallet share with tier 1 supplier in the auto industry. This coupled with FTPL's healthy product mix and ability to customize products as per customer requirements continues to support the business growth. FTPL also has a long standing relationship with its suppliers thus mitigating the risk of raw material availability to a certain extent.

Credit weaknesses

Modest scale of operations - FTPL modest scale of operations restricts operational and financial flexibility to an extent. The company's scale is expected to improve going forward with healthy order book position of the company for FY2018

High competitive intensity - FTPL faces intense competition from several regional players and also from other industry majors impacting the pricing flexibility, in addition to affecting the ability of the company to acquire new customers

High customer concentration - Top three customers of the company accounts for over 70% revenues in FY2017; of this, over 45% revenues is generated from its top customer. While this exposes the company to revenue risks arising from loss of customers, expansion of customer base and the established customer profile is expected to mitigate the risk to an extent.

High working capital intensity - The working capital intensity of the company continues to remain high with relatively stretched receivable position. Although the company has improved its debtor days from 86 days as on March 31, 2016 to 77 days as on September 30, 2017 working capital cycle continues to remain stretched.

Modest financial profile - The company's financial profile is characterized by moderate debt indicators with gearing of 1.7x and Total Debt/OPBITDA of 6.6x as on March 31, 2017. Interest coverage of the company declined from 1.9x as on March 31, 2016 to 1.6x as on March 31, 2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturer](#)

About the company:

Established in 1983, FTPL commenced commercial production in the year 1987 through manufacturing of hand tools. However, it moved into manufacturing of rocker arms for Maruti Udyog during 1992 through SEPL. Over the years, the company has diversified into other products and customers and also became a subsidiary of SEPL during FY2005 wherein the promoters acquired 51% stake in FTPL following their 40% holding till FY2004. During FY2014, an additional 19% stake was acquired making FTPL 70% subsidiary of SEPL. FTPL was ISO/TS 16949:2009 certified in the year 2002 and has been ISO/TS 14000 certified in the year 2014.

The company currently has about 17 forging lines comprising of hammers, friction screw press and pneumatic press lines and a well-equipped CNC shop. The company currently produces about 2 million forged components a month in addition to one lakh machined components every month for various customers. The company's current scope for manufacturing is in precision forged components ranging from 18gm to 5,000gm. All forging related heat treatment operations under FTPL are carried out in-house and is monitored and controlled by a metallurgical lab. Forging Die and Tool Design / manufacturing is also carried out in-house the company's in-house design team. FTPL is presently being managed by Mr. D.R.Subramanya & Family who are the promoters and holders of about 30% stake in the company.

In FY2017, as per audited numbers, the company reported a net loss of Rs. 0.5 crore on an operating income of Rs. 68.9 crore, as compared to a net profit of Rs. 0.6 crore on an operating income of Rs. 70.5 crore in FY2016.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	70.5	68.9
PAT (Rs. crore)	0.6	-0.5
OPBDIT/ OI (%)	8.8%	7.0%
RoCE (%)	10.1%	6.0%
Total Debt/ TNW (times)	1.3	1.7
Total Debt/ OPBDIT (times)	4.1	6.6
Interest coverage (times)	1.9	1.6
NWC/ OI (%)	27.0%	30.2%

Source: company and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
Instrument	Type				June 2016	-	-
1 Fund based facilities	Long Term	18.25	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
2 Term Loan	Long Term	0.50	10.6	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
3 Non fund based facilities	Short Term	2.75	0.4	[ICRA]A2+	[ICRA]A2+	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	NA	8.5%	NA	18.25	[ICRA]A-(Stable)
NA	Term Loan	June, 2016	9.50%	FY2021	0.50	[ICRA]A-(Stable)
NA	Non fund based facilities	NA	NA	NA	2.75	[ICRA]A2+

Source: company.

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Mythri Macherla

+91 80 433266407
mythri.macherla@icraindia.com

Pavethra Ponniah

+91 044 45964314
pavethrap@icraindia.com

Faizan Ahmed

+91 80 43326414
faizan.ahmed@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-3341580 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 66069999

© Copyright, 2017 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents