

August 06, 2019

ACR Machining Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (Cash Credit)	1.50	1.50	[ICRA]BBB-(Stable); reaffirmed
Long Term – Unallocated	3.00	3.00	[ICRA]BBB-(Stable); reaffirmed
Total	4.50	4.50	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation favourably takes into consideration the extensive experience of the promoters of ACR Machining Pvt. Ltd. (ACR) in the machining industry and their established relationships with key customers. The rating also factors in the comfortable financial risk profile of the company marked by healthy profitability levels and moderate capital structure, with debt largely comprising unsecured loans from promoters, and healthy debt coverage indicators.

The rating is, however, constrained by the company's small scale of operations and its modest net worth position in a highly fragmented and competitive automotive machining industry. The company is also exposed to client concentration risk with its top five clients driving ~85% of its revenue in 9M FY2019. Further, ACR's performance remains exposed to slowdown/cyclicality associated with the tractor and automobile industry to which it has sizeable exposure. The rating also factors in the susceptibility of profitability to fluctuations in prices of key raw materials, which are commoditised in nature; although its price escalation clause with major customers provides some comfort.

Outlook: Stable

ICRA expects ACR to continue to benefit from the extensive experience of its promoters and its established relationships with reputed players in the auto industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure or stretch in the working capital cycle, weakens liquidity and the capital structure. The withdrawal of unsecured loans from the promoters, leading to funding mismatch, will also be a negative rating trigger.

Key rating drivers

Credit strengths

Extensive experience of promoters in the machining industry – The promoters of ACR—Mr. Mahendra Rathod and Mr. Prakash Rathod—have extensive experience of over three decades in the casting and machining industry, which has helped them establish business relationships with several leading tractor manufacturers and automobile original equipment manufacturers (OEMs).

Financial risk profile marked by healthy profitability, moderate capital structure and comfortable debt coverage indicators – ACR exhibits a comfortable financial risk profile marked by healthy profitability indicators, moderate capital structure and comfortable debt coverage indicators. The company's operating profit margins have remained healthy in the last four fiscals and stood at 19.5 % in 9M FY2019 (17.5% in FY2018). Its net profit margins have also remained healthy due to limited interest costs, standing at 9.3% in 9M FY2019 (8.0% in FY2018). The company's reliance on external working capital borrowings has remained low over the years and a significant portion of the total debt is constituted by unsecured loans from promoters. As on December 31, 2018, its total debt stood at Rs. 9.5 crore, of which Rs. 1.0 crore was its working capital limit and the rest was unsecured loans from promoters. The capital structure of the company has remained moderate with gearing of 0.7 time as on December 31, 2018 (1.1 times as on March 31, 2018). Given the healthy profitability levels, ACR's debt coverage indicators remain comfortable as reflected by interest coverage of 9.3 times, NCA/Total Debt of 78% and Total Debt/OPBDITA of 0.9 time as on December 31, 2018.

Reputed and established client base – ACR continues to benefit from its reputed and established client base. Its clientele comprises several leading tractor manufacturers such as Mahindra & Mahindra Ltd. and Same Deutz-Fahr India (P) Limited with whom the company has been associated for a considerable period.

Credit challenges

Small scale of operations and modest net worth base – ACR primarily caters to the machining job work requirements of its customers, including overseas clients. It also undertakes machining job work for its Group company, Caspro Metal Industries Private Limited, which is engaged in grey iron casting. With an operating income of Rs. 41.4 crore recorded in 9M FY2019 (provisional) and net worth of Rs. 13.5 crore as on December 31, 2018, ACR continues to be a small sized player that faces stiff competition from other players in a highly fragmented industry.

Substantial client concentration risk – The top five customers of ACR contributed ~85% of its revenue in 9M FY2019, which underlines the substantial client concentration risk. However, its established relationships with key customers in the tractor industry provide some comfort.

Vulnerability to price fluctuations in key raw material prices – The margins of ACR remain vulnerable to the prices of its key raw materials, which are commoditised in nature. However, the price escalation clause in its agreement contracts with major customers provides some comfort against the said risk.

Exposed to inherent cyclicity in the tractor and automotive industry – The company stands exposed to inherent cyclicity associated with the tractor and automotive industry to which it has a considerable exposure. Any slowdown in these industries could adversely impact the company's performance.

Liquidity position

ACR had modest cash and liquid investments of Rs. 0.1 crore as on December 31, 2018. Its average monthly utilisation of fund-based working capital limits stood at 42% in the 15-month period ended June 2019, providing adequate cushion to liquidity. Additionally, there are no significant external long-term debt or scheduled repayments in the near term, which give some comfort to the liquidity position in the near term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer

About the company:

Incorporated in 2007, ACR Machining Private Limited (ACR) is promoted and managed by Mr. Mahendra Rathod, Mr. Prakash Rathod and Mr. Vijay Rathod. The company is engaged in supplying machined components primarily to industries such as the tractor/automotive, air compressor and the railway, among others. Its manufacturing facility is located at Kolhapur, Maharashtra.

ACR has a Group company, Caspro (rated [ICRA]BBB(Stable)/[ICRA]A3+), which manufactures grey iron castings. Earlier the Group had another machining firm, Rathod Industries, whose assets were transferred to ACR. ACR undertakes machining work/job work for Caspro, although its share in ACR's revenue pie is minimal as the latter's major revenue comes from outright sales to other reputed customers.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	9MFY2019 (Provisional)
Operating Income (Rs. crore)	32.3	42.9	41.4
PAT (Rs. crore)	1.7	3.4	3.9
OPBDIT/OI (%)	17.9%	17.5%	19.5%
RoCE (%)	24.9%	33.7%	38.4%
Total Debt/TNW (times)	1.5	1.1	0.7
Total Debt/OPBDIT (times)	1.6	1.4	0.9
Interest coverage (times)	4.4	5.9	9.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019 July 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 May 2016	
1	Cash Credit	Long Term	1.50	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Unallocated	Long Term	3.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
3	Short Term, Non Fund Based facilities	Short Term	-	-	-	-	-	[ICRA]A3

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	Cash Credit	NA	NA	NA	1.50	[ICRA]BBB-(Stable)
NA	Unallocated Limits	NA	NA	NA	3.00	[ICRA]BBB-(Stable)

Source: ACR Machining Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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