

October 04, 2019

Comet Technocom Private Limited: Ratings reaffirmed; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- SODH	6.50	6.50	[ICRA]BB reaffirmed; Outlook revised from Negative to Stable
Non-fund based Bank Guarantee	0.25	0.25	[ICRA]BB /[ICRA]A4 reaffirmed; Outlook revised from Negative to Stable
Total	6.75	6.75	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook of the company's long-term rating considers a significant growth in its turnover in FY2019, aided by an improved order inflow. The pending order book of Comet Technocom Private Limited (CTPL) stood at Rs. 19.60 crore as of July 2019 (improved from Rs. 8.65 crore as on February 28, 2018), providing revenue visibility in the near term. The ratings also continue to factor in the established track record of the company in the manufacturing of railway wagon and bogie components for over two decades, repeat orders from established and reputed clients, which reflect its acceptable product quality, and its comfortable capital structure, as reflected by a gearing of 0.84 times as on March 31, 2019. The ratings also favourably factor in the registration of CTPL's products with The Research Designs & Standards Organisation (RDSO), which acts as a barrier for new entrants.

The ratings are, however, constrained by the company's weak financial profile, characterised by nominal profits and cash accruals from business, and moderate coverage indicators. The ratings also factor in the high working capital intensity of operations on account of high inventory and receivable levels, which adversely impact the company's liquidity position. ICRA notes that CTPL's revenue from the top-five clients accounted for around 62% of the total revenue in FY2019, exposing the company to client concentration risk. However, the counterparty risk remains low owing to its reputed clientele.

The Stable outlook on the [ICRA]BB ratings reflects ICRA's opinion that the company will continue to benefit from the experience of its promoters in the manufacturing of railway wagon and bogie components.

Key rating drivers and their description

Credit strengths

Improved order inflow in FY2019, leading to a significant turnover growth - CTPL's operating income increased by around 92% to Rs. 36.65 crore in FY2019 from Rs. 19.13 crore in FY2018 mainly due to an inflow of new orders from the wagon manufacturers.

Established track record of the company in manufacturing of railway wagon and bogie components – CTPL is involved in manufacturing of wagon and bogie components for over 25 years. The company manufactures around 70-80 varieties of rolling stock components from its manufacturing unit in Howrah, West Bengal.

Accreditation from RDSO strengthens operational profile – For supplying rolling stock components to the Indian Railways as well as wagon manufacturers which supply to the Indian Railways, registration of the product with RDSO is compulsory. Such accreditation of CTPL's products from RDSO acts as a barrier for new entrants in the sector as there are limited numbers of players in the industry that are registered with RDSO to supply all components.

Established relationships and repeat orders from reputed clients reflect acceptable product quality – CTPL caters to the requirements of various reputed bogie and wagon manufacturers such as Texmaco Rail & Engineering Ltd., Kontinental Steel Korporation, Jayaswal Neco Industries Limited etc for more than five years. ICRA notes that repeat orders from these clients reflect CTPL's acceptable product quality.

Credit challenges

Weak financial profile characterised by nominal profits and cash accruals, low net worth and modest debt coverage indicators – CTPL's small scale of operation and modest margins kept its profits and cash accruals low at an absolute level. The company's tangible net worth also remained low historically (Rs. 8.35 crore as on March 31, 2019). The low profits kept its debt coverage indicators modest, as reflected by interest cover, total debt to OPBDITA and net cash accruals to total debt of 1.77 times, 3.79 times and 10%, respectively in FY2019.

Significant client concentration risk – CTPL's revenue from the top five clients accounted for around 62% of the total revenue in FY2019, exposing the company to client concentration risk. However, the counterparty risk remains low owing to its reputed clientele.

High working capital intensity of operations despite a decline in FY2019 – The net working capital intensity of CTPL's operations stood high owing to high inventory requirement as well as sizeable receivables. The company's net working capital relative to operating income declined to 37% in FY2019 from 71% in FY2018 due to a decline in inventory and receivable days, though the same still remained high.

Liquidity position: Stretched

The company's liquidity is **stretched** with high working capital intensity of operations and a modest net cash accrual. Its high working capital limit utilisation exerts pressure on liquidity. Nevertheless, the company has limited long-term debt repayment obligation.

Rating sensitivities

Positive triggers – ICRA may upgrade the company's ratings if its interest coverage becomes greater than 2.3 times.

Negative triggers – Negative pressure on the company's ratings may arise if interest coverage is less than 1.5 times and/or if there is an increase in working capital intensity of operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements

About the company

Incorporated in 1992, Comet Technocom Pvt. Ltd. (CTPL) primarily manufactures railway wagon and bogie components. The company's manufacturing facility is located in Howrah, West Bengal and it supplies its products mainly to private wagon manufacturers and caters to the replacement demand of the Indian Railway.

Key financial indicators (Audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	19.13	36.65
PAT (Rs. crore)	0.12	0.45
OPBDIT/OI (%)	7.51%	5.02%
RoCE (%)	7.14%	10.84%
Total Outside Liabilities/Tangible Net Worth (times)	1.47	1.27
Total Debt/OPBDIT (times)	5.02	3.79
Interest Coverage (times)	1.59	1.77
DSCR	1.44	1.65

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2019	FY2018	FY2017
					04-October-2019	05-April- 2018	-	06-March-2017
1	SODH (fund based working capital)	Long Term	6.50	-	[ICRA]BB (Stable)	[ICRA]BB (Negative)	-	[ICRA]BB (Stable)
2	Bank Guarantee	Long/ Short Term	0.25	-	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Negative)/[ICRA]A4	-	[ICRA]BB (Stable)/[ICRA]A4

Amount in Rs. Crore

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	SODH (fund based working capital)	-	NA	NA	6.50	[ICRA]BB (Stable)
NA	Bank Guarantee	-	NA	NA	0.25	[ICRA]BB (Stable)/ [ICRA]A4

Source: Comet Technocom Private Limited

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

ANALYST CONTACTS

K. Ravichandran

+91 33 7150 1100

ravichandran@icraindia.com

Sujoy Saha

+91 33 7150 1184

sujoy.saha@icraindia.com

Sovanlal Biswas

+91 33 7150 1181

sovanlal.biswas@icraindia.com

Priyanka Sancheti

+91 33 7150 1188

priyanka.sancheti@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

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (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) 2556 0194/ 6606 9999

© Copyright, 2019 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