

## Rating Advisory

July 31, 2020 | Mumbai

### Emkay Taps and Cutting Tools Limited

#### Advisory as on July 31, 2020

This rating advisory is provided in relation to the rating of Emkay Taps and Cutting Tools Limited

The key rating sensitivity factors for the rating include:

#### Upward factors:

- Sustained revenue growth of 25-30% while sustaining operating margin, over the medium term
- Maintenance of the working capital cycle and capital structure

#### Downward factors:

- Decline in net cash accruals below Rs 70 million on account of loss on sale of investments or more than anticipated decline in revenue and operating profits
- Stretch in working capital cycle on account of stretch in receivables or inventory built-up

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Emkay Taps and Cutting Tools Limited (ETCTL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If ETCTL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt. Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/CIR/P/2017/71 dt. June 30, 2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About The Company

ETCTL was set up in 1976, as a proprietorship firm of Mr Ajay Prakash Kanoria, a Nagpur-based first-generation entrepreneur. The firm was reconstituted as a private limited company in 1995, and a public limited company in 2015. It is listed on NSE-Emerge. It manufactures high-speed steel (HSS) threading taps and cutting tools, mainly for the automobile and auto ancillary industries. It also owns and operates wind-mills in Rajasthan (2 windmills with capacity of 0.8 MW each) and Karnataka (1.2 MW).

*Please note: This advisory should not be construed as a rating reaffirmation.*

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## Rating Rationale

September 06, 2019 | Mumbai

### Emkay Taps and Cutting Tools Limited

*Rating outlook revised to 'Stable', long-term rating reaffirmed; short-term rating downgraded to 'CRISIL A2'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.11 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB+/Stable (Outlook revised from 'Positive' and rating reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A2 (Downgraded from 'CRISIL A2+')</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has revised its outlook on the long-term bank facilities of Emkay Taps and Cutting Tools Ltd (ETCTL) to '**Stable**' from 'Positive', while reaffirming the rating at '**CRISIL BBB+**'. The short-term rating has been downgraded to '**CRISIL A2**' from 'CRISIL A2+'.

The outlook revision reflects expected moderation in the business risk profile, as against CRISIL's earlier expectation of improvement, due to expected decline in revenue and profitability following sluggish demand from the automotive (auto) industry. Revenues were lower than expected during Q1 of fiscal 2020. Nevertheless, the financial risk profile would remain healthy with company's cash accrual in excess of Rs 16 crore over medium term and; stable working capital cycle should keep the total outside liabilities to adjusted networth (TOLANW) below 0.1 time, despite moderate capital expenditure (capex) of Rs 4-5 crore during the fiscal 2020.

The short-term rating downgrade reflects significant drop in value of company's investments in equity. Company also reported loss on sale of investments Rs 13.69 crore during fiscal 2019 resulting in lower than expected accruals of Rs 8.19 crore for fiscal 2019.

Ratings continue to reflect the established position in the threading taps segment, backed by the extensive experience of the promoters and company's healthy financial risk profile, driven by healthy networth and comfortable debt protection metrics. These strengths are partially offset by susceptibility of operating performance to slowdown in the end-user industry, moderate scale of operations and product concentration.

## Key Rating Drivers & Detailed Description

### **Strengths**

\* **Established market position and extensive experience of the promoters:** The four-decade-long experience of the promoters, in the threading taps segment of the cutting tools industry, has helped them build healthy relationships with customers (automotive original equipment manufacturers) and suppliers, and a diversified distribution network. All these factors have helped the company establish a strong market position.

\* **Healthy financial risk profile:** Financial risk profile remains robust, marked by healthy networth and low total outside liabilities to adjusted networth of Rs 108.5 crore and 0.11 time as on March 31, 2019, respectively, supported by lower reliance on working capital debt. Debt protection metrics were comfortable, with interest coverage and net cash accruals to adjusted debt ratios of 65.93 times and 2.86 times, respectively, for fiscal 2019.

### **Weakness**

\* **Susceptibility of operating performance to slowdown in the end-user industry and moderate scale of operations:** Bulk of the revenue accrues from the automobile and auto-ancillary industry, hence any slowdown in the sector will impact the operating performance of ETCTL. Although revenue increased over the three fiscals through 2019 (Rs 64.18 crore) same continues to remain moderate. Company's operating performance is expected to get impacted on account of slowdown in end user industry, as reflected in the operating performance during Q12020.

\* **Exposure to product concentration risk:** ETCTL manufactures threading taps, which requires high precision. However, product concentration restricts the ability to diversify revenue streams. Given the nature of the product and need to fulfil just-in-time requirements, inventory is moderately high (140-180 days over three fiscals ended March 31, 2019).

### **Liquidity: Adequate**

ETCTL has adequate liquidity driven by expected cash accruals of more than Rs.16 crore per annum in Fiscal 2020 and 2021. Company also had cash and cash equivalents of Rs.1.41 crore as on March 31, 2019. ETCTL also had investments in equity and mutual fund of Rs 65.04 crore as on March 31, 2019. ETCTL also has access to fund based limits of Rs.6.5 crore, utilized to the tune of 9% on an average over the 12 months ended July 2019. The company has no long term repayment obligations and no major debt funded capex plans. CRISIL expects internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient to meet its incremental working capital requirements. Also, value of liquid investments held to remain monitorable.

### **Outlook: Stable**

CRISIL believes ETCTL will continue to benefit from the extensive experience of its promoters and healthy operating profits.

### **Rating sensitivity factors:**

#### **Upward factors:**

- \* Sustained revenue growth of 25-30% while sustaining operating margin, over the medium term
- \* Maintenance of the working capital cycle and capital structure

#### **Downward factors:**

- \* Decline in net cash accruals below Rs 7 crore on account of loss on sale of investments or more than anticipated decline in revenue and operating profits
- \* Stretch in working capital cycle on account of stretch in receivables or inventory built-up

### **About the Company**

ETCTL was set up in 1976, as a proprietorship firm of Mr Ajay Prakash Kanoria, a Nagpur-based first-generation entrepreneur. The firm was reconstituted as a private limited company in 1995, and a public limited company in 2015. It is listed on NSE-Emerge. It manufactures high-speed steel (HSS) threading taps and cutting tools, mainly for the automobile and auto ancillary industries. It also owns and operates wind-mills in Rajasthan (2 windmills with capacity of 0.8 MW each) and Karnataka (1.2 MW).

**Key Financial Indicators**

As on / for the period ended March 31	Unit	2019	2018
Revenue	Rs crore	64.18	54.83
Profit after tax (PAT)	Rs crore	5.27	19.60
PAT margin	%	8.2	36.29
Adjusted debt/adjusted networth	Times	0.03	0.04
Interest coverage	Times	65.93	48.09

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	4	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	1.35	CRISIL A2
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	5.65	CRISIL BBB+/Stable

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	9.65	CRISIL BBB+/Stable	12-04-19	CRISIL BBB+/Positive	31-01-18	CRISIL BBB+/Stable/ CRISIL A2+			07-10-16	CRISIL BBB+/Stable/ CRISIL A2	CRISIL BBB+/Stable/ CRISIL A2
Non Fund-based Bank Facilities	LT/ST	1.35	CRISIL A2	12-04-19	CRISIL A2+	31-01-18	CRISIL A2+			07-10-16	CRISIL A2	--

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	4	CRISIL BBB+/Stable	Cash Credit	4	CRISIL BBB+/Positive
Letter of Credit	1.35	CRISIL A2	Letter of Credit	1.35	CRISIL A2+
Proposed Long Term Bank Loan Facility	5.65	CRISIL BBB+/Stable	Proposed Long Term Bank Loan Facility	4.65	CRISIL BBB+/Positive
--	0	--	Term Loan	1	CRISIL BBB+/Positive
<b>Total</b>	<b>11</b>	<b>--</b>	<b>Total</b>	<b>11</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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