

Rating Rationale

Brickwork Ratings assigns rating of 'BWR BB-' for the Fund based Bank credit facilities of Auto Clutches

Brickwork Ratings has assigned the following **Ratings¹** for Bank Loan facilities of Auto Clutches.

Facility	Limit (₹Cr)	Tenure	Rating
Cash Credit	3.00	Long Term	BWR BB- (Pronounced as BWR Double B Minus) (Outlook – Stable)
Cash Credit against Book Debt	0.50		
Bank Guarantee	0.45	Short Term	BWR A4 (Pronounced as BWR A Four)
Total	3.95	(INR Three Crores and Ninety Five Lakhs Only)	

BWR has essentially relied upon the audited financial results of Auto Clutches up to FY 14, information and clarifications provided by the Firm.

The Rating has, inter alia, factored the long track record of operations, over four decade of experience of the proprietor in the manufacturing of auto parts, good long term relationship with reputed clients, Comfortable debt protection metrics, improvement in the sales achieved in the first 8 months of FY15 and moderate net worth. The Rating however, is constrained by low scale of operations considering years of existence, decline in profit margins, intense competition due to fragmented nature of industry, dependence of sales on the growth of end-use sectors such as automobile sector, lack of Auto Industries in the vicinity of the firm because of which the firm cannot price its products competitively, and inherent risks of being a proprietorship firm which include the risk of net worth not remaining with the firm due to withdrawals.

Background:

Auto Clutches was established in the year 1986. It is a proprietorship concern with Mr. Subramanya as the proprietor. It is located in Shimoga. The firm is involved in the manufacture of automotive machine parts. The unit is spread over an area of 1,00,000 sq.ft. with the installed capacity of 3.5 Lakh/month and the utilized capacity of 2.5 lakh/month. The firm is well equipped with plant and machinery and the facilities include Machined Castings, CNC Turning Machine, Vertical Machining Centres, Twin Spindle, Centreless Grinding, Cutting Machine, Welding Machine. It has developed Heat Treatment Facilities in-house. It has 400KG SQF (Sealed Quench Furnace) and has plan to install another 600KG SQF to meet its ever-growing customer's demand. It also has 6 medium Frequency Induction Hardening machines ranging

¹ Please refer to www.brickworkratings.com for definition of the Ratings

from 50kW to 100kW. There is also an inspection system in place to maintain standards and to provide trouble free parts to the customers. The inspection system includes Surface Coating Thickness Tester, Compact & Easy Roughness Measurement, Micro Hardness Tester and other Inspection tools. The products manufactured include Shackle Pin/Spring Pin, King Pin/Knuckle Pin, Selector Plate/Rails, Shifter Shafts, Machined Castings, Turned Parts and Axle Parts. Auto Clutches has a sister concern which is operational under the name Perfect Alloys Pvt Ltd and is also involved in the manufacturing of auto components although they are different from the ones Auto Clutches is manufacturing. The Firm is also venturing into export of its products in FY15

Financial Performance:

During FY14, the firm has reported revenue of ₹ 11.46 Cr. The operating profit margin and the net profit margin of the Firm stood at 11.54% and 1.31% respectively in FY 14. Net worth stood at ₹ 6.96 Cr as at 31st March, 2014. As per VAT Returns of FY15 sales stood at ₹12.14 Cr for the period April-November 2015.

Rating Outlook:

The Firm's performance over the next year is expected to be stable. Ability of the Firm to improve its scale of operation, profitability margins against intense competition would be the key rating sensitivities going forward.

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