

Cooper Corporation Private Limited

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	16.45 (Reduced from 31.35)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	141.90 (Reduced from 168.90)	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	158.35 (Rs. One hundred fifty-eight crore and thirty-five lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings has reaffirmed its ratings on the bank loan facilities of Cooper Corporation Pvt Ltd (CCPL) continuing to draw its strength from its seasoned promoters and qualified management, diversified product portfolio supported by its well-equipped manufacturing facilities and inhouse research and development (R&D) facility. This has led to long standing business relations with well-established customers spread across various geographies. Also, the ratings factors in its healthy capital structure and debt coverage metrics. These strengths are partially tempered by its moderate scale of operations, moderation in its profitability margin, elongated working capital cycle and inherent foreign exchange risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial improvement in scale of operations along with profitability margins i.e. PBILDT margin of 18.5% leading to substantial increase in gross cash accruals (GCA) on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations or further deterioration in the profitability leading to GCA below Rs.40 crores on a sustained basis.
- Incremental debt either for capex or any other operational requirements leading to deterioration in debt coverage metrics, particularly, total debt to PBILDT of more than 2.75x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Seasoned promoters and qualified management: Mr. Farrokh Nariman Cooper, Chairman & Managing Director (CMD), spearheads CCPL since last 4 decades which manufactures engines, engine components and gensets at Satara, Pune. Mr. Cooper, septuagenarian, is the third-generation member of the Cooper family who is actively involved in day-to-day operations of company. He is followed by Mr. Zal Sam Cooper (55 years), Executive Director, who is responsible for new business development and engine division. The promoters are also supported by team of professionals from varied business backgrounds and relevant qualifications.

Diversified product portfolio: CCPL has a diversified product profile consisting of engine components - cylinder liners, crankshafts, cylinder heads and cylinder blocks, valve seat inserts, flywheels, etc., engine - 2, 3, 4, 6- cylinder engines in diesel and gas variants and generators - diesel and gas. Engine components contribute ~80-85% to total revenues and ~14-20% is from engine and generator segment.

Long-standing business relations with well-established customer across various geographies: CCPL has healthy relationships of more than 2 decades with customers well-established in their line of business mainly automobile Original Equipment Manufacturers (OEMs) in domestic as well as overseas markets. Additionally, CCPL caters to other segments such as defence, railways, marine engines etc. Company markets its products through dealer network and marine dealers. Over the years, it has also established strong customers in the United States of America (USA), Europe, Russia, China, Brazil etc. This has led to exports contributing 46-51% of the total sales over the last three fiscals through FY21, providing geography diversification benefit.

Well-equipped manufacturing facilities, in-house Research & Development facility: CCPL has 11 well equipped manufacturing facilities spread across Satara (total area of 69 acres), Maharashtra providing complete solution right from conceptualization & designing stage to manufacturing, machining & validation stage to the end customer. Furthermore, CCPL has in house R&D facilities with most of the tooling of equipment being developed and calibrated in-house. This strategy is

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

aimed at reduction of cost as well as lead time. Company has strategic technological collaboration with Ricardo Limited U.K. (engineering and consultancy) for engines, meeting current and future emission norms. The strategic collaboration has helped CCPL to build Central Pollution Control Board (CPCB –II) compliant engine components. Supported by its designing and development capabilities, CCPL has also developed various prototypes for generator sets and has successfully completed prototypes for tractors in various segments. The company spent 0.86% (1.04%) of net sales on R&D in FY21 (FY20).

Healthy capital structure and debt coverage metrics: CCPL continues to have healthy capital structure with healthy networth and overall gearing. As on March 31, 2021 (2020), the company's tangible networth was Rs.314.62 cr (Rs.304.74 cr) supported by the years of accretion to reserves. The company's overall gearing was 0.19x (0.26x) as on March 31, 2021 (2020). The company has raised debt from bank primarily to fund working capital requirements as well as to fund capex. In FY22, with significant moderation in profitability leading to lower GCA and incremental working capital requirements, the working capital debt had significantly increased from Rs.37-38 crore on FY20-FY21 ending to Rs.115 crore till January 2022. However, by February 2022 end, the company's working capital debt has reduced to around Rs.54 crore and is estimated to remain at similar level as on FY22 ending.

Despite the significant drop in operating profitability in FY21 & FY22, the company's debt coverage metrics remained healthy on account of low reliance on debt. The same is expected to continue going forward.

Key Rating Weaknesses

Moderate scale of operations: CCPL continues to have moderate scale of operations with total operating income (TOI) of Rs.468.42 crore in FY21 and estimated to be in the range of Rs.630-640 crore in FY22. Revenue dipped in FY21 year on year (y-o-y) since Q1FY21 was adversely impacted from COVID-19 restrictions and production facilities only started operating normally since September 2020 onwards. Also, the semi-conductor shortages restricted the recovery in the second half. Normal operations with better demand in FY22 led to rise in turnover, however, revenue in FY22 was also partially constrained by semi-conductor shortages at clients' end. Going forward, the company is expected to moderately grow with short term challenges being increasing crude oil prices and supply chain disruption in the automobile industry.

Working capital intensive operations: CCPL has working capital intensive operations with operating cycle of 116 to 130 days in FY20-FY21 on account of moderately long inventory and debtor cycle. The inventory cycle increased from 85 days in FY20 to 105 days in FY21 majorly due to increase in work-in-progress inventory and finished goods inventory. Lead time is higher in exports leading to high inventory cycle. In FY21, supply chain issues at customer side led to irregular dispatches of finished goods which had eventually built up at the end of FY21 leading to further stretch in working capital cycle. The operating cycle continued to remain elongated in FY22 as well.

Moderation in profitability margins: Due to significant lag in revision of raw material prices and freight rate hikes along with their reimbursement as well as lower scale of operations leading to inefficient apportionment of employee and power costs, the company's profitability margins were adversely impacted in FY21. The operating profitability margin i.e. PBILDT margin dropped by 677 bps in FY21 y-o-y to 9.99% and has continued to remain subdued in FY22 estimated at 8.8-9% in FY22 due to similar reasons. Further in FY22, proportion engines/gensets sales have increased to 18.01% of TOI in 9MFY22 from 14.14% (13.21%) in FY21 (FY20). The margins in engine/genset segment is relatively lower compared to engine component segment. There may be improvement in profitability margin going ahead with expected eventual pass through of increased input and freight costs to customers, however the extent of improvement is uncertain and remains key monitorable.

Inherent foreign exchange risk: Apart from domestic market CCPL operates in the international market mainly in USA, Europe, China, Russia, Brazil etc. Since export sales constitute around half of total sales, CCPL is exposed to foreign exchange risk arising from foreign currency transaction and absence of formal hedging policies. CCPL's profitability is exposed to adverse changes in the currency rates.

Liquidity: Adequate

Liquidity of CCPL is characterized by sufficient cushion in gross cash accruals vis-à-vis repayment obligations and adequate un-utilized fund-based limit utilization.

The company is estimated to generate GCA of about Rs.48-50 crore in FY22 and Rs.55-60 crore in FY23 against repayment obligations of about Rs.8 crore during these two fiscals, hence providing comfortable cushion between GCA and repayment obligations; and healthy DSCR. Due to rise in working capital requirements along with reduced GCA in FY21 and FY22, the company's working capital borrowing has increased from Rs.36.79 crore as on March 31, 2021 to Rs.95.70 crore as on December 31, 2021. However, this moderated to Rs.54 crore as on February 2022 ending. Over the last 12 months through February 2022, the average of maximum utilization during the month was 53% and average utilization during the month was 42.23%. Despite, the significant rise in working capital debt, the overall utilization is moderate.

The company had free cash and bank balance of Rs.7.68 crore as on March 31, 2021 and Rs.6.15 crore as on December 31, 2021. The company has no major planned debt funded capex. Healthy overall gearing of 0.22x and current ratio of around 1.6x estimated as on FY22 ending provides the company significant headroom to raise debt in case of requirement.

Analytical approach: Standalone**Applicable Criteria**[Policy on default recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Short Term Instruments](#)[Auto Ancillary Companies](#)[Manufacturing Companies](#)**About the Company**

Established in 1982 in Satara, Maharashtra, led by Mr. Farrokh Cooper (74 years, CMD), Cooper Corporation Private Limited (CCPL) was initially called as Cooper Foundry Private Limited and was subsequently named to Cooper Corporation Private Limited (CCPL) in 2005. CCPL is one of the leading manufacturer and supplier of engine components (such as cylinders liners, cylinder heads, flywheels; etc.), engines (used for marine and farm applications) and power generators in the range of 5 Kilo - Volt-Ampere (kVA) to 500 kVA, including machining of crankshafts and engine components. Company has ten manufacturing facilities located in Satara, India all the plants are certified with ISO/TS-16948:2009 & ISO-9001:2008 for quality management systems and sells its product globally via multiple channels including dealers, retail, etc. Company has sales depots in four states Tamilnadu, Karnataka, W. Bengal and Uttar Pradesh to take care of sales of engines / gensets in these regions. The Gensets of the company are marketed under the Brand name 'Cooper Bolt Series'.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021 (UA)
Total operating income	548.62	468.42	465.90
PBILDIT	91.95	46.78	44.96
PAT	27.18	6.37	7.06
Overall gearing (times)	0.26	0.19	0.32
Interest coverage (times)	10.63	12.05	9.22

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / facility:** Not Applicable**Complexity level of various instruments rated for this company:** Annexure 4**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2023	16.45	CARE A+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	70.00	CARE A+; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	-	71.90	CARE A+; Stable / CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	16.45	CARE A+; Stable	-	1)CARE A+; Stable (24-Feb-21)	1)CARE A+; Stable (25-Nov-19)	-
2	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST*	70.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (24-Feb-21)	1)CARE A+; Stable / CARE A1 (25-Nov-19)	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	71.90	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (24-Feb-21)	1)CARE A+; Stable / CARE A1 (25-Nov-19)	-

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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