Cooper Corporation Private Limited

February 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	31.35 (Reduced from 50.51)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	168.90	CARE A+; Stable / CARE A1 (Single A Plus ; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	**200.25 (Rs. Two Hundred Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Cooper Corporation Private Limited (CCPL) continue to derive strength from seasoned promoters, well equipped manufacturing unit and in-house research & development facility leading to diversified product portfolio and long-standing business relations with established customer base across various geographies. The ratings also favourably factor its comfortable capital structure and debt protection metrics.

The rating strengths, however, are partially constrained by moderate scale of operations, profitability being susceptible to volatility in raw material prices, elongated working capital cycle and inherent foreign exchange risk.

Rating Sensitivities

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

- Significant increase in scale of operations on a sustainable basis backed by improvement in engines/DG sets segment and foray into new segments as anticipated by the company.
- Improvement in profitability margins as marked by PBILDT margin above 18.50% on a sustained basis.

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

- Decline in profitability margins marked by PBILDT margin of less than 12% on a sustained basis leading to adverse impact on its debt coverage indicators.
- Any debt funded capital expenditure leading to deterioration in gearing ratios more than 1.00x
- Further elongation of the net working capital cycle to more than 150 days, leading to rise in working capital debt.

Detailed Rationale & Key Rating Drivers

Seasoned promoters supported by team of qualified professionals

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% to total revenues and ~14% 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 exports contributing 49-51% of the total sales over the last three fiscals through FY20, providing geography diversification benefit.

Comfortable capital structure and satisfactory debt protection metrics
As on March 31, 2020 the tangible net-worth of CCPL stood at Rs.304.74 crore (improved from Rs.273.87 crore as on March 31, 2019).
Debt profile as on March 31, 2020 comprised of term loan of Rs.41.81 crore (Rs.62.85 crore as on March 31, 2019) and outstanding working capital borrowings of Rs.38.16 crore (Rs.91.27 crore as on March 31, 2019). Debt to equity and overall gearing of CCPL improved and stood comfortable below unity at 0.13x and 0.26x respectively as on March 31, 2020, supported by no major debt funded capex, scheduled repayment of term
loans and steady accretion to reserves.
Furthermore, with modest reliance on debt and healthy operating margins the debt coverage metrics continue to remain comfortable with PBILDT interest coverage 10.64x (8.47x) in FY20 (FY19) and total debt/gross cash accrual of 1.07x (2.27x) in FY20 (FY19).

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 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. With its designing and development capabilities, CCPL has also developed various prototypes for generator sets and has successfully completed prototypes for tractors in various segments.

Key Rating Weaknesses
Moderate scale of operations
In line with tepid performance of automobile ancillary sector in FY20, a segment which contributes majority of the revenue for CCPL, the revenue growth of CCPL remained muted in FY20 wherein the company recorded a TOI of Rs.548.31 crore. For 9MFY21 company recorded TOI of Rs.313.25 crore and for the full year FY21 the TOI is estimated to de-grow as compared to FY20 due to COVID-19 impact. The continuing impact of COVID-19 is monitorable with resurgence witnessed across many countries.

Elongated Working Capital Cycle
CCPL operates in the business which is working capital intensive, with funds mainly blocked in inventory and receivables resulting in working capital cycle hovering in the range of 115 days to 120 days for the past four fiscal years through FY20. The average inventory and collection period stood at 85 days and 68 days respectively during FY20. Majority of inventory is in the form of finished goods, company maintains 20-25 days of finished goods in overseas depots while ~40 days pass by in transit leading to high inventory days.
The elongated working capital requirements are supported by creditors (average creditor period of 37 days in FY20), internal accruals and working capital debt.

Moderately healthy profitability; however susceptible to volatility in raw material prices
The company has moderately healthy profitability with PBILDT margin in the range of 15-17% in the last two fiscal years through FY20. Considering the key raw materials consumed comprises of Pig iron, M.S. Scrap, Alloys etc for casting, which fluctuates on account of demand and supply variables, the company's margins are susceptible towards the same. Inability to compensate for or pass on such price increases increased costs to customers could have a material adverse impact on CCPL's financial profile.

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 cash balance. The company had a cash and bank balance of Rs.7.68 crore as on March 31, 2020 and Rs.9.01 crore as on December 31, 2020. The company has no major planned debt funded capex and has sufficient bank line cushion to meet its incremental working capital requirements with average of last 12 months average monthly utilization being a modest 15.94%. Current ratio stood at 1.59x as on March 31, 2020. Also, on the back of its adequate liquidity, CCPL has not availed loan moratorium on its working capital limits which was allowed by RBI as a COVID relief measure.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Rating
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios-Non-Financial Sectors
Rating Methodology- Manufacturing Companies
Rating Methodology - Auto Ancillary 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	FY19(A)	FY20(A)
Total Operating Income	545.63	548.31
PBILDT	85.05	92.06
PAT	26.10	27.18
Overall Gearing (times)	0.57	0.26
Interest Coverage (times)	8.47	10.64

A: 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/facilities: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31.35	CARE A+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	97.00	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

r. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	31.35	CARE A+; Stable	-	1)CARE A+; Stable (25-Nov-19)	-	-
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	97.00	CARE A+; Stable / CARE A1	-	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 (25-Nov-19)	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities

Covenants of Instrument	Detailed explanation
A. Financial covenants	
Current Ratio	>1.1x till the currency of loan
External Debt/EBITDA	<2.5x till the currency of loan
DSCR	>1.5x at all times
B. Non-financial covenants	
Document submission	Monthly stock book debt statement

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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