

Rating Rationale

November 30, 2024 | Mumbai

CFF Fluid Control Limited

'CRISIL BBB/Positive/CRISIL A3+' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.45 Crore
Long Term Rating	CRISIL BBB/Positive (Assigned)
Short Term Rating	CRISIL A3+ (Assigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB/Positive/CRISIL A3+**' ratings to the bank facilities of CFF Fluid Control Ltd (CFFFCL).

The ratings reflect the promoters' extensive experience and technical capabilities in the defence equipment industry, benefits of the company's empanelment and global tie-ups, and healthy order book with established clientele, and comfortable financial risk profile. These strengths are partially offset by its need for constant technology upgrade, working capital-intensive operations, and susceptibility of revenue and operating profitability to risks inherent in the tender-based business.

Analytical Approach

CRISIL Ratings has considered the standalone financials of CFFFCL for arriving at the ratings.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive industry experience and technical capabilities of the promoters, and benefits of the company's empanelment and global tie-ups:** Experience of more than three decades in the defence equipment industry has given the promoters an understanding of the market dynamics and enabled them to establish relationships with suppliers and customers. CFFFCL has developed strong engineering and design capabilities which has helped it meet the changing demands of its customers. The company is recognized as the authorised equipment manufacturer by the Indian Navy for the equipment that it manufactures and services. This enables it to obtain repeat orders for items and spares as and when required by the Indian Navy and enables it to provide repair services to the Indian Navy as a single-source vendor. Also, CFFFCL has the necessary certifications and registrations with various entities, including defence public sector shipyards.

CFFFCL has entered into tie-ups with global entities from time to time to strengthen its technical know-how. The company currently has technical tie-ups with M/s Nereides and M/s Minerva Issartel of France. It has agreements for technology transfer, process development and manufacture of towed wire antennae for Indian Navy and export to foreign countries with Nereides. Minerva Issartel is into design and manufacture of complex parts for the energy, transport and defence industries. CFFFCL has agreed to work jointly to support Minerva Issartel's products and services in the Indian market.

- **Healthy order book with established clientele:** CFFFCL's strong market presence has enabled it to maintain strong unexecuted order book of Rs 551 crore as on September 30, 2024 which is to be executed over the next 3 years providing healthy revenue visibility over the medium term. Furthermore, the company has a wide product portfolio which finds application in diverse sectors such as defence (manufacturing and servicing of shipboard machinery, critical component systems and test facilities for submarines and surface ships) and energy (manufacturing critical equipment and systems). CFFFCL has a diversified customer base which ranges from government arms and organisations involved in the defence, shipbuilding and energy sectors.- The strong order book and established clientele should support the business risk profile over the medium term.

- **Comfortable financial risk profile:** CFFFCL's capital structure has been healthy due to low reliance on external funds yielding gearing of 0.20 time and total outside liabilities to adjusted networth (TOLANW) ratio of 0.30 time as on March 31, 2024 (1.84 and 2.55 times as on March 31, 2023). The debt protection metrics have also been robust due to low leverage and healthy profitability as reflected by interest coverage and net cash accrual to total debt (NCATD) ratio were of 12.1 times and 0.83 time, respectively, for fiscal 2024. Debt protection measures are expected at similar levels over the medium term. In the absence of any large debt funded capex, financial risk profile is expected to remain comfortable over the medium term.

Weaknesses:

- **Working capital-intensive operations:** The company had gross current assets (GCAs) of 415 days as on March 31, 2024. The large working capital requirement arises from sizeable inventory which primarily includes work in process due to its nature of business. The lead time is high as the company manufactures critical components required in manufacturing ships and submarines by the India Navy. The inventory ranged from 220 to 250 days during the three fiscals through March 2024 and is expected at a similar level over the medium term. The large GCAs are also because of the high current assets, which include retention money and advances to suppliers as per business requirements.
- **Susceptibility of revenue and operating profitability to risks inherent in tender-based business:** While CFFFCL has a diversified product profile with different products providing different profitability, its business performance depends entirely on the nature of tenders from its customers. As a result, both, scale and profitability, are expected to remain volatile. Although revenues have increased to Rs 106.86 crores in fiscal 2024 and has further achieved Rs 80.03 crores in first half of fiscal 2025 along with improvement in operating margins backed by better product mix. the sustenance of healthy scale of operations and profitability remains a key monitorable over the medium term.

Liquidity: Adequate

Bank limit utilisation was moderate at 85.95% on average for the 12 months through September 2024. Annual cash accrual is expected to be over Rs 30 crore against yearly term debt obligation of Rs 2.13-2.18 crore annually over the medium term, and will cushion liquidity. The current ratio was healthy at 4.24 times on March 31, 2024. CFFFCL had cash and bank balance of Rs 17.27 crore, of which Rs 15.38 crore was unencumbered, as of March 2024. Low gearing and moderate networth support financial flexibility and will provide financial cushion during adverse conditions or downturn in the business.

Outlook: Positive

CRISIL Ratings believes CFFFCL will continue to benefit from the extensive experience of its promoters and established relationships with clients.

Rating Sensitivity Factors

Upward factors

- Steady revenue growth and sustenance of the operating margin, leading to cash accruals sustained above Rs 32 crores
- Sustenance of the financial risk profile

Downward factors

- Decline in net cash accrual below Rs 20 crore on account of fall in revenue or operating profit
- Large, debt-funded capital expenditure weakening the capital structure
- Steep increase in working capital requirement weakening the liquidity and financial risk profile

About the company

CFFFCL (previously known as Flash Forge Fluid Control Pvt Ltd) was incorporated in February 2012. The company manufactures and services shipboard machinery, critical component systems and test facilities for submarines and surface ships for the defence sector. It also designs, manufactures and provides services related to mechanical equipment and systems for industries such as nuclear and clean energy. CFFFCL 's facility at Khopoli in Maharashtra is spread over 6,000 square metre.

CFFFCL is listed on the SME (small and medium enterprise) platform of the Bombay Stock Exchange. The company is managed by Mr Sunil Menon (Managing Director) and Mr Gautam Makkar (Director).

Key Financial Indicators

As on/for the period ended March 31	Unit	2024	2023
Operating income	Rs.Crore	106.86	70.67
Reported profit after tax (PAT)	Rs.Crore	15.86	10.18
PAT margin	%	15.09	14.34
Adjusted debt/adjusted networth	Times	0.20	1.84
Interest coverage	Times	12.54	5.97

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Bank Guarantee	NA	NA	NA	20.00	NA	CRISIL A3+
NA	Cash Credit	NA	NA	NA	15.00	NA	CRISIL BBB/Positive
NA	Term Loan	NA	NA	31-Mar-27	7.00	NA	CRISIL BBB/Positive
NA	Working Capital Term Loan	NA	NA	31-Mar-25	1.42	NA	CRISIL BBB/Positive
NA	Working Capital Term Loan	NA	NA	31-Mar-25	1.58	NA	CRISIL BBB/Positive

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	25.0	CRISIL BBB/Positive		--		--		--		--	--
Non-Fund Based Facilities	ST	20.0	CRISIL A3+		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	20	Axis Bank Limited	CRISIL A3+
Cash Credit	15	Axis Bank Limited	CRISIL BBB/Positive
Term Loan	7	Axis Bank Limited	CRISIL BBB/Positive
Working Capital Term Loan	1.42	Axis Bank Limited	CRISIL BBB/Positive
Working Capital Term Loan	1.58	Axis Bank Limited	CRISIL BBB/Positive

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Himank Sharma Director CRISIL Ratings Limited D:+91 124 672 2152 himank.sharma@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Shalaka Singh Associate Director CRISIL Ratings Limited B:+91 22 3342 3000 Shalaka.Singh@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
	Sanskruti Bhosale Senior Rating Analyst CRISIL Ratings Limited B:+91 22 3342 3000 Sanskruti.Bhosale@crisil.com	

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