

CARE Due Diligence Services



Due Diligence Report

Name of the Entity	Emkay Taps and Cutting Tools Limited
Location	Plot No. B-27 and B-27/1, M.I.D.C. Industrial Estate, Hingna Road, Nagpur, Maharashtra-440 016
Operational Status	Operational
Report Date	July 13, 2015

CARE Due Diligence Report– INDEX	
STRENGTHS AND WEAKNESSES	2
BRIEF SNAPSHOT OF ENTITY	4-5
ORGANISATION & MANAGEMENT	
PROFILE OF THE PROMOTERS	6
MANAGEMENT & BOARD OF DIRECTORS	7-9
MANAGEMENT & OWNERSHIP STRUCTURE	10-12
BUSINESS PROFILE	
BUSINESS PROFILE ANALYSIS	13-14
OPERATIONS OVERVIEW	15-17
CUSTOMER & SUPPLIER ANALYSIS	18
BUSINESS ACTIVITY DETAILS	19
INDUSTRY ANALYSIS	20-26
SITE VISIT REPORT	27-28
FINANCIAL PERFORMANCE	
PROFITABILITY STATEMENT	29-30
COST STRUCTURE	31-35
BALANCE SHEET: ASSETS	36-40
BALANCE SHEET: LAIBILITIES	41-45
SUMMARY OF RATIOS	46-47
PROFITABILITY ANALYSIS	48
LIQUIDITY ANALYSIS	49-50
FINANCIAL FLEXIBILITY	51
DEBT PROTECTION INDICATORS	52
BANKERS & AUDITORS DUE DILIGENCE	53
KEY FINDINGS	54-55

NOTICE

CARE's Due Diligence services is an independent opinion of the entity. The report is a one-time exercise and the information contained in this report is intended solely for recipient for specific purpose. The said information is confidential and may be privileged, and is also prohibited from disclosure. Any disclosure or further distribution of the report or use other than specified is strictly prohibited. Nothing contained in the report is capable or intended to create any legally binding obligations on the sender or CARE who accept no responsibility, whatsoever, for loss or damage from the use of the said information. The due diligence is not an audit and also not a recommendation for entering into any transaction with the entity.

The report is based on the information and explanations provided to CARE and /or obtained by CARE from reliable sources. CARE does not guarantee the accuracy, completeness or adequacy of any information on which this report is based. CARE is not responsible for any error / omissions for the results/opinions obtained for the use of this report.

CARE, its directors, Rating Committee members, employees and others associated with the due diligence assignment do not have any financial liability whatsoever. Any reproduction of the report or part of it would require explicit written approval of CARE.

CARE Due Diligence Report– STRENGTHS AND WEAKNESSES**Key Strengths**

- *Well-experienced promoter and management team in machine tool industry.*
- *Established track record of business operations.*
- *Diversified and reputed client base (namely Bajaj Auto Limited, Hero Motors, Endurance Technologies Private Limited (rated 'CARE A+/A1'), Mahindra & Mahindra Limited (rated 'CARE AAA/A1+'), Bharat Forge Limited).*
- *Healthy profitability margins.*
- *Comfortable capital structure and adequate debt coverage indicators.*
- *Healthy liquidity profile with investment in quoted shares and mutual funds.*

Key weaknesses

- *Moderate utilisation of capacity.*
- *Working capital-intensive nature of operation, however, the utilisation of CC facility has remained low.*
- *Concentrated product portfolio towards cyclical auto industry.*
- *Raw material price fluctuation risk.*
- *Presence in the highly regulated and competitive industry.*

Note:

- *To undertake the due diligence, CARE has relied at the information provided by the management, their deputed/ instructed by the management and Draft Red Herring Prospectus.*
- *For undertaking the financial analysis, we have primarily relied on the following financial statements provided by the management:*
 - *Audited financials for the financial year ending March 31, 2010, audited by M/s Vijay Agrawal and signed by Mr Vijay Agrawal dated August 28, 2010.*
 - *Audited financials for the financial year ending March 31, 2011, audited by M/s Vijay Agrawal and signed by M/s Vijay Agrawal dated September 05, 2011.*
 - *Audited financials for the financial year ending March 31, 2012, audited by M/s Vijay Agrawal and signed by M/s Vijay Agrawal dated August 28, 2012.*
 - *Audited financials for the financial year ending March 31, 2013, audited by M/s Vijay Agrawal and signed by M/s Vijay Agrawal dated September 02, 2013.*
 - *Audited financials for the financial year ending March 31, 2014, audited M/s Vijay Agrawal and signed by M/s Vijay Agrawal dated August 11, 2014.*
 - *Audited financials for 10MFY15 ending January31, 2015, audited M/s Vijay Agrawal and signed by M/s Vijay Agrawal dated March17, 2015.*

DRHP consists of financials till January 31, 2015; thus, CARE has also considered financials till only January 31, 2015.

- *As a part of the due diligence exercise for NSE, CARE also*
 - *Reviews financials submitted by the company with Ministry of Corporate Affairs.*
 - *Undertakes Site visit and management discussion*
 - *Due Diligence with lenders and auditors*
 - *Due Diligence with customers and suppliers. However, the same has not conducted, as the details were not provided by the ETCT siting confidentiality.*
- *However, please note that*
 - *Due diligence exercise by CARE is not an audit and also not a recommendation for entering into any transaction with the entity.*
 - *CARE does not guarantee the accuracy, completeness or adequacy of any information on which this report is based. CARE is not responsible for any error / omissions for the results/opinions obtained for the use of this report.*

BRIEF SNAPSHOT OF ENTITY

Name	Emkay Taps and Cutting Tools Limited				
Year of Incorporation	1995				
Constitution	Public Limited				
Nature of Business	Manufacturing of thread cutting tools & Renewable energy				
Industry	Machine Tools				
Products Manufactured	HI-Performance Thread Forming Taps, HI-Performance Spiral Fluted Taps, HI-Performance Spiral Pointed Taps, HI- Performance Taps for Cast Iron Tapping, HI-Performance Special Taps, PM Taps, Carbide Taps, Special Designed Roll Taps, Through Coolant Taps (T.C.H), Special Geometry —Spiral Fluted Taps, Special Geometry—Spiral Pointed Taps, Taps With Special Coatings				
Registered Office	Plot No. B-27 and B-27/1, M.I.D.C. Industrial Estate, Hingna Road, Nagpur, Maharashtra-440 016				
Location of Plant	Plot No. B-27 and B-27/1, M.I.D.C. Industrial Estate, Hingna Road, Nagpur, Maharashtra-440 016				
Key Promoters name	Mr Ajayprakash Kanoria (Chairman & MD), Mrs Alka Kanoria (Whole-time Director),				
Key regulatory approvals, certifications and membership	The products are manufactured under various standards – IS II, IS III, IS IV, DIN, BS, ANSI, ISO 2 and others.				
Major Brands	EMKAY TOOLS				
Name of the Auditor	M/s Vijay Agrawal & Company Chartered Accountants				
Major Existing Bankers	Bank of Maharashtra				
Total number of employees	108 (63 on payroll, 45 contractual)				
Total income for latest year	Rs.2,975.32 lakh in FY14				
Wilful defaulter as per CIBIL	No (As on June 30, 2015)				
Litigations	Cases Against	Particulars	Nature & Number of Case	Amount involved	Current status and managements response
	ETCT	Direct Tax Case	Civil – 5	Not Ascertainable	The matter are on stage of hearing
	ETCT	Indirect Tax	Civil - 2	Rs. 327261	Out of Rs.327,261 the company has already paid Rs.255,310; however, these matters are on Stage of hearing.

Background

Established as a private limited company in 1995 to take over the business of proprietorship entity M/s. Emkay tools (engaged in similar line of business, since 1976); Emkay Taps and Cutting Tools Limited is engaged in the manufacturing of thread cutting tools [viz, HI-performance thread forming taps, spiral fluted taps, carbide taps and other variants of taps and generation of power through wind turbines. The

taps manufactured are sold under brand name of 'EMKAY TOOLS' and finds major application in auto and auto component industry.

The income from taps formed around 93.93% of the revenue income in FY14 (refers to the period April 1 to March 31)], followed by generation of power (contributed 5.57%) and remaining by the sale of scrap and duty entitlement pass book. ETCT sells majority of its manufactured taps in the domestic (forming 94.38% of income from manufacturing of taps and cutting tools in FY14) and remaining in the international market (to countries like South Africa, China, Germany, Thailand and France). ETCT manufactures about 7,500 different sizes & style of thread cutting tools of which around 80% of the total production is supplied to OEMs directly and/or indirectly and remaining is sold through secondary market. ETCT has its manufacturing facility located at Nagpur in Maharashtra with total installed capacity of 18 lakh units per annum as on March 31, 2015, for which the average utilization stood 57.96% during FY15.

ETCT has cumulative wind power generation capacities of 2.85 MW at Rajasthan (2) and Karnataka (1). ETCT has signed power purchase agreement with Chamundeshwari Electricity Supply Corporation Limited (1.25 MW) and Ajmer Vidyut Vitran Nigam Limited (1.60 MW).

During FY14, the total operating income (TOI) of ETCT stood at Rs.3,037.37 lakh (compared with Rs.3,144.89 lakh in FY13), while net profit of the company stood at Rs.573.87 lakh in FY14 (compared with Rs.491.65 lakh in FY13). Furthermore, during 10MFY15 (refers to the period April 1 to January 31), ETCT posted TOI of Rs.3,253.72 lakh, while the net profit stood at Rs.863.53 lakh.

ORGANISATION & MANAGEMENT: PROFILE OF THE PROMOTERS, MANAGEMENT & BOARD OF DIRECTORS

Details of key promoters

Name	Age	Designation	Educational qualification	Total years of experience	Years of association with company	Details of the past experience	Responsibilities handled
Mr Ajayprakash Kanoria	58	Chairman & Managing Director	B. Com, Chartered Accountant (Intermediate)	35	20	Looked after the business of Emkay Tools	Overall Management
Mrs Alka Kanoria	55	Whole-time Director	B. Sc	25	15	Looked after the overall administration of Emkay Tools	Overall administration

NA: Not Applicable

Comments:

- Mr Ajayprakash Kanoria, is a commerce graduate and has passed intermediate level of Chartered Accountancy course; has 35 years of experience in cutting tool industry. He manages the entire business affairs at ETCT including planning and formulating the overall business strategy and developing business relations for the company.
- Mrs Alka Kanoria (wife of Mr Ajayprakash Kanoria), is a science graduate and has more than two decades of industry experience. She manages the day-to-day administrative operations of ETCT.
- Both the promoters have experience with ETCT only.

Details of key management personnel

Name	Age	Designation	Educational qualification	Approx. total years of experience	Date of Appointment /Years of association with the company	Responsibilities handled
Mr Ajayprakash Kanoria	58	Chairman & Managing Director	B.Com, CA (Inter)	35	July 27, 1995	Overall management.
Mrs Alka Kanoria	55	Whole-time Director	B. Sc	25	December 15, 2000	Overall administration.
Mr Vishnu Sontakke	52	Chief Financial Officer	M. Com	31	September 04, 2000	Supervision of overall accounting & finance matters, verification of accounting vouchers and purchase order related documents.
Ms Shruti Sohane	26	Company Secretary & Compliance Officer	B. Com, Company Secretary	Nil	April 10, 2015	Overall compliance matters

Comments:

- The directors are supported by well-qualified second-line management.
- The company has appointed qualified & experienced technical personnel to head each manufacturing process; however, due to confidentiality, the details of the same have not been shared by the management.

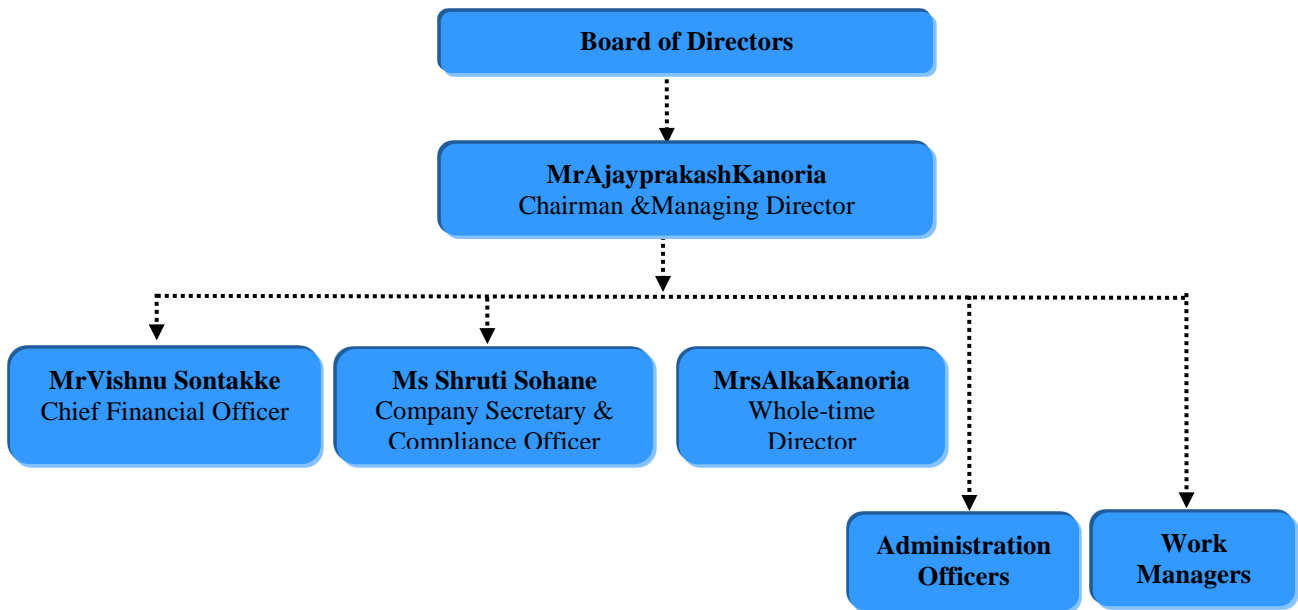
Details of the board of directors

Name	Age (Years)	Category	Education qualification	Total years of experience	Date of Appointment	Details of the past experience	Other directorships / Association Chairman
Mr Ajayprakash Kanoria	58	Executive Director	B.Com, CA (Inter)	35	July 27, 1995	Experience in cutting tools industry acquired from family business.	1. Nagpur Tools Private Limited 2. Adishree Engineering Private Limited
Mrs Alka Kanoria	55	Executive Director	B.Sc	25	December 15, 2000	Looked after overall administration at Emkay Tools.	1. Nagpur Tools Private Limited 2. Adishree Engineering Private Limited
Mr Rahul Bagdia	35	Non-Executive Independent Director	M.Sc (Mechanical Engineering & Electrical Engineering Systems)	13	April 8, 2015	Business, technology, R&D, emerging markets modeling & market development, consultancy services.	1. Manifold Business Solutions Private Limited 2. Vibrant Global Capital Limited
Mr Mahesh Ishwardas Mor	58	Non-Executive Independent Director	B.Com	25	April 8, 2015	Micro financing, consumer durables, vehicle investments.	None
Mr Ravindra Ramesh Loiya	47	Non-Executive Independent Director	B.com	25	April 24, 2015	Experience in steel industry and real Estate business.	None

Comments:

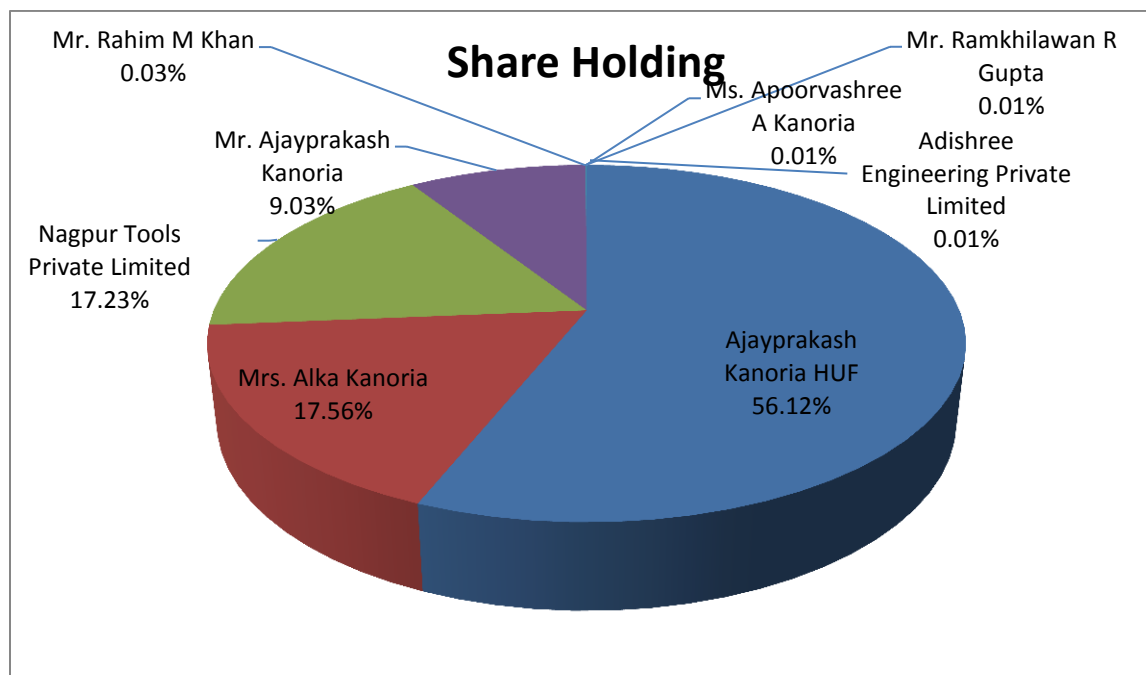
- ETCT has two executive directors (promoters) and three non-executive independent directors on the board.
- Except for Mr Ajayprakash Kanoria, who is the husband of Mrs Alka Kanoria, none of the directors are related to each other.
- The average industry experience of all the directors is more than two decades in various fields. However, the independent non-executive directors have been associated with the company for less than 6 months.

Organization Structure



ORGANISATION & MANAGEMENT: MANAGEMENT & OWNERSHIP STRUCTURE

Share holding pattern as on June 19, 2015



Name of share holder	No. of equity shares held	Share in business (%)
Ajayprakash Kanoria, HUF	998,000	56.11
Mrs Alka Kanoria	312,275	17.56
Nagpur Tools Private Limited	306,400	17.23
Mr Ajayprakash Kanoria	160,625	9.03
Mr Rahim M Khan	500	0.03
Mr. Ramkhilawan R Gupta	250	0.01
Adishree Engineering Private Limited	250	0.01
Ms Apoorvashree A Kanoria	250	0.01
Total	1,778,550	100

Comment:

- Mr Ajayprakash Kanoria is the karta of Ajayprakash Kanoria HUF, being the main promoter of the company, holds the highest stake, followed by Mrs Alka Kanoria, Nagpur Tools Private Limited and Mr Ajayprakash Kanoria.

- Moreover, Ms Apoorvashree Kanoria (daughter of Mr Ajayprakash Kanoria and Mrs Alka Kanoria), also hold a 0.01% stake in the company, whereas the balance is held by other individuals.
- ETCT has two group companies as detailed below:

(Rs.Lakh)

Name of the group company	Nagpur Tools Private Limited (NTPL)		Adishree Engineering Private Limited	
Date of incorporation	December 09, 2004		May 06, 1997	
Registered office	Kanoria Bhavan, Ghat Road, Nagpur – 440 018, Maharashtra, India		F-9/8, M.I.D.C, Hingna Road, Nagpur – 440 018, Maharashtra, India	
Nature of business	Manufacturing of High Speed Steel tools up to the initial stage of manufacturing including parting, facing/centering, turning milling and heat treatment on job work basis for ECTC.		Manufacturing and Selling all kinds of engineering items, tools, cutting tools, machine tools, jigs, dies, moulds, spare parts, steel fabrication including, furniture, sheet metal works and to undertake job work and fabrication as per design & drawing.	
Financial Year	FY13	FY 14	FY13	FY14
Total Income	407.20	401.21	83.16	68.37
Net Profit	182.19	201.54	28.03	7.60
Net worth	1,182.25	1,383.79	251.48	259.12
Total Debt	-	-	-	-

Comments

- NTPL is engaged into manufacturing of thread cutting tools which majorly include parting, facing/centering, turning milling and heat treatment on job work basis for ECTC, thereby deriving operational synergies, NTPL derives 100% of its income from ETCT. The heat treatment facility is not present in ETCT.
- AEPL is engaged in the manufacturing and selling of jigs, dies, moulds, spare parts steel fabrication including, furniture, sheet metal works on job work basis for ETCT (formed 3% of AEPL’s income) and others.
- NTPL holds 17.23% stake and AEPL holds 0.01% stake in ETCT as on June 19, 2015.

Employee Profile

Particulars	Nos.
Skilled/ Semi-Skilled Employees (On payroll)	63
Semi-Skilled/Unskilled (Contractual)	45
Total Employees	108

As on June 19, 2015

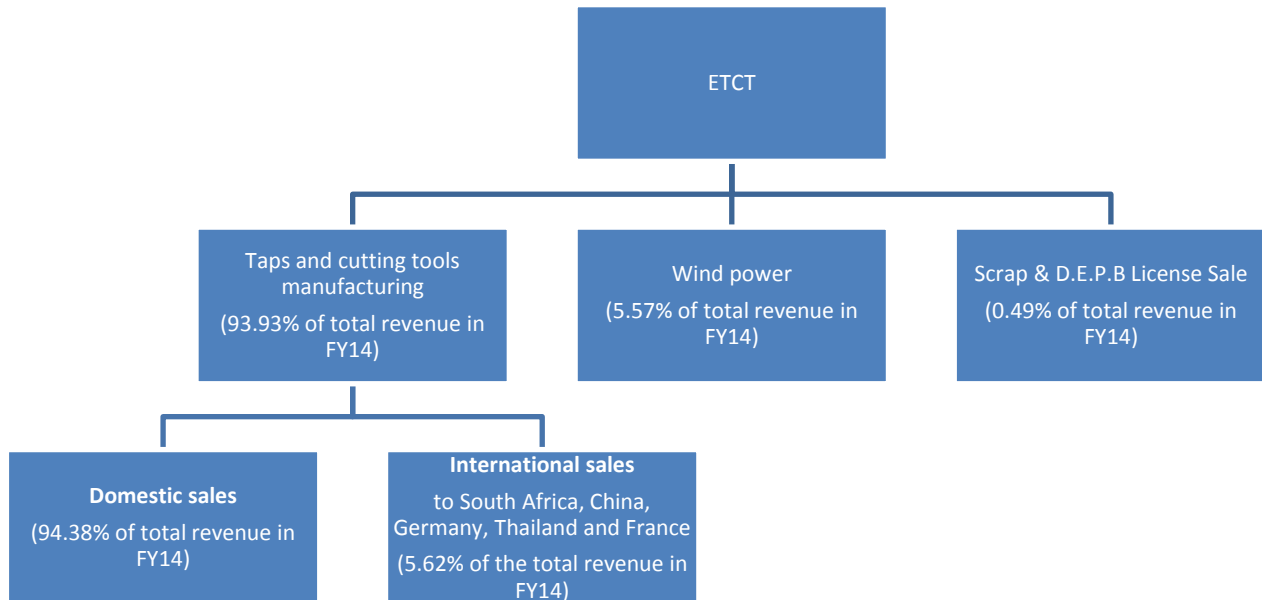
Comment:

- The major decisions are taken by the promoters. The level of professionalization seems to be good and have healthy number of skilled/semi-skilled employees for the organization.
- Furthermore, majority of the floor employees are either engineers or ITI graduate
- ETCT has entered into an agreement with Khan Vyas Associates, Nagpur for supply of manpower at the manufacturing facility. As informed by the management they haven't signed any binding agreement with Khan Vyas Associates.

BUSINESS PROFILE: OPERATIONS OVERVIEW

BUSINESS PROFILE ANALYSIS

ETCT is engaged in the manufacturing of thread cutting tools and sale of power.



- Income from manufacturing of cutting tools formed the majority of ETCT revenue (around 93.93% of the total revenue) in FY14, while income from sale of power was the second major contributor (forming 5.57%) and income from sale of scrap & D.E.P.B accounted for the rest.
- In its tools manufacturing segment the company sells its products in the domestic (forming around 94.33% of its revenue from tools in FY14) and around 80% directly and/or indirectly to OEMs.
- The company benefits due to its established relationship with leading automobile and/or auto components players, namely, Bajaj Auto Limited, Hero Motors, Endurance Technologies Private Limited (rated ‘CARE A+/A1’), Mahindra & Mahindra Limited (rated ‘CARE AAA/A1’+), Bharat Forge Limited and others.
- In its wind power segment, the company has three WTGs (at Karnataka and Rajasthan) with a total installed capacity of 2.85 MW, which is sold under a power purchase agreement.

- At Karnataka, the WTG has an installed capacity of 1.25 MW, and the PPA has been signed with Chamundeshwari Electricity Supply Corporation Limited at a rate of Rs.3.40 per KWH for first 10 years from Commercial operation dated March 2008. From 11th year onwards (i.e. 2019) the rate will be determined by Karnataka Electricity Regulatory Commission.
- At Rajasthan, the WTG has a total installed capacity of 1.6 MW (800 KW each), and the PPA has been signed with Ajmer Vidyut Vitran Nigam Limited [rated 'CARE A- (SO)'] at a rate of Rs.4.28 per KWH for Jaisalmer, Barmer, and Jodhpur Districts and Rs.4.50 per KWH for other districts.
- Furthermore, ETCT generates marginal proportion of revenue from sale of scrap and duty entitlement pass book license sale which constituted about 0.49% of the total sale in FY14.

OPERATIONS OVERVIEW

Nature of activity	Taps and cutting tools manufacturing and wind power
Industry segment	Machine Tools and renewable energy
Products Offered	HI-Performance Thread Forming Taps, HI-Performance Spiral Fluted Taps, HI-Performance Spiral Pointed Taps, HI- Performance Taps for Cast Iron Tapping, HI-Performance Special Taps, PM Taps, Carbide Taps, Special Designed Roll Taps, Through Coolant Taps (T.C.H), Special Geometry —Spiral Fluted Taps, Special Geometry—Spiral Pointed Taps, Taps With Special Coatings and sale of power
Plant location (Manufacturing of Tools)	Plot No. B-27 and B-27/1, M.I.D.C. Industrial Estate, Hingna Road, Nagpur, Maharashtra-440 016
Plant location (Power Generation Unit)	1. Village Ugwa, Tehsil Fatehgarh, Dist. Jaisalmer, Rajasthan 2. Sy. No. 01, Village Shivapura Kavalu, Madihalli, Belur, Hassan
Area of the Plant	Manufacturing Unit - 5,231 Sq. Mt. Wind Farm – 2 hectares (Rajasthan), 8.06 hectares (Belur, Karnataka) and 8.97 hectares (Salagame, Karnataka)
Ownership of Plant	Manufacturing Unit - Leased for a period of 95 years Wind Farm – Rajasthan - Leased for 19 yrs 11 month Karnataka – Leased for 30 years
Location advantage	No
Marketing Setup	The company undertakes direct sales efforts either from head office or through business representatives.

Comments:

- ETCT has its tools manufacturing facility located at Hingna Road in Nagpur (Maharashtra), with a total area of 5,231 square meters. The manufacturing facility is leased from March 30, 1981, for a period of 95 years.
- ETCT markets its products domestically and in the international market through participation in trade fairs and exhibitions, which helps the company to promote its products and also understand customer’s needs.
- ETCT tools manufacturing segment thrives on established relationship developed by the promoter director Mr Ajayprakash Kanoria with various reputed clients over the years.
- ETCT has a unit of Wind Turbine Generators (WTG) having a capacity of 1.25 MW located in Hassan, Karnataka. ETCT has entered into an agreement with Suzlon Infrastructure Service Limited to operate and manage the WTG on behalf of ETCT.
- The company owns two other units of WTG having a capacity of 1.6 MW (800KW each) located in Jaisalmer, Rajasthan. ETCT has entered into an agreement with Enercon (India) Limited to operate and routine maintenance.

- ETCT has entered into a 20 years agreement for operations and maintenance with both Enercon and Suzlon.

Segment-wise revenue analysis
(Rs. Lakh)

Particulars	FY10	FY11	FY12	FY13	FY14	CAGR (%) (FY10-14)	10M FY15
Revenue from Taps and cutting tools manufacturing	1,871.63	2,809.16	3,171.12	2,918.36	2,794.81	10.54	2,826.80
% y-o-y growth	NA	50.09	12.88	-7.97	-4.23	-	-
% contribution to total revenue	98.05	91.76	88.96	92.58	93.93	-	92.90
- Domestic direct sales	1,338.48	2,378.83	2,805.04	2,669.5	2,637.86	18.48	2,659.58
% y-o-y growth	NA	77.73	17.92	-4.83	-1.19	-	-
% contribution to total revenue	70.12	77.71	78.69	84.69	88.66	-	87.40
- Export direct sales	433.00	293.64	366.08	248.86	156.95	-22.41	167.22
% y-o-y growth	NA	-32.19	24.67	-32.02	-36.93	-	-
% contribution to total revenue	22.68	9.59	10.27	7.90	5.28	-	5.50
Revenue from wind power	65.08	119.30	174.50	178.14	165.77	26.33	120.06
% y-o-y growth	NA	83.32	47.27	2.09	-6.94	-	-
% contribution to total revenue	3.41	3.90	4.90	5.65	5.57	-	3.95
Other Income	35.09	17.39	218.88	55.62	14.70	-19.55	96.12
% y-o-y growth	NA	-50.43	-13.19	-74.59	-73.57	-	-
% contribution to total revenue	1.84	0.57	6.14	1.76	0.49	-	3.16
Total Revenue	1908.83	3061.31	3564.5	3152.12	2975.28	11.74	3042.99
% y-o-y growth	27.51	60.38	16.44	-11.57	-5.61	-	-

Comments:

- Domestic sales from taps and cutting tools manufacturing are the largest revenue contributing segment (with ~88.66% share of the revenue in FY14), followed by revenue from sale of wind power (~5.57%).
- ETCT had an agreement with a European company to supply thread cutting tools, however, the margin realized on export orders were proportionally low as compared with

the domestic market, after the termination of the agreement, the company has shifted its focus to the domestic market on account of which income from taps & cutting tools declined during FY13 & FY14.

- While its income from cutting tools in domestic market improved from 78.69% in FY12 to 88.66% in FY14, its income from export of cutting tools declined from 10.27% to 5.28% during the same period.
- Income from wind power has been in the range of 4.90% to 5.57% of the total revenue during FY12-FY14.
- Other income during FY12, was higher primarily on the account of job work undertaken.

Country-wise revenue breakup (%)

Countries	FY2010		FY2011		FY2012		FY2013		FY2014	
	Rs. in Lakh	% of Revenue	Rs. in Lakh	% of Revenue	Rs. in Lakh	% of Revenue	Rs. in Lakh	% of Revenue	Rs. in Lakh	% of Revenue
China	-	-	-	-	-	-	0.86	0.03%	4.64	0.16%
Germany	433.01	23.12%	273.63	9.74%	366.08	10.56%	247.99	8.01%	139.33	4.68%
France	-	-	-	-	-	-	-	-	12.96	0.44%
USA	-	-	20.01	0.71%	-	-	-	-	-	-
India	1,439.99	-	2,515.52	89.55%	3,099.03	89.44%	2,847.64	91.96%	2,818.37	94.73%
Total	1,873.00		2,809.16		3,465.11		3,096.49		2,975.30	

*Sales returns, income from dividend, MF and capital gains are not included

Comments:

- India is the largest revenue contributing country, with 94.38% share in total revenue during FY14, followed by Germany (4.68%) and France (0.44%).
- Over the past 3 years, ETCT has been focusing more on the domestic market, as the realization in the domestic market is higher for the company's product.
- The total revenue contribution from exports destinations has been variable, while Germany has been the key revenue driver in export segment over the past 5years, however, this was primarily due to the agreement signed with a European company. With the termination of the agreement, the overall sale proportion to Europe is expected to reduce.

CUSTOMERS & SUPPLIERS ANALYSIS**CUSTOMER'S PROFILE**

- ETCT has a customer base of more than 70 clients, majorly comprising leading automobile companies and/or dealers supplying to OEMs.
- The company deals with reputed customer base, which broadly comprise Bajaj Auto Limited, Hero Motors, Endurance Technologies Private Limited (rated 'CARE A+/A1'), Mahindra & Mahindra Limited (rated 'CARE AAA/A1+'), Bharat Forge Limited and others.
- ETCT has low customer concentration with top 10 clients contributing to around 28.44% of the total revenue in FY14 (compared with 35.94% in FY13), thereby reducing its dependence on any single client.
- The client profile of ETCT has remained diversified and reputed, therefore, reducing the counter party risk to large extent.

SUPPLIERS' PROFILE

- The key raw material of the company is HSS Steel which constitutes approximately 90% of the total raw material cost. ETCT imports the HSS steel primarily from Bohler Steel (Austria) & Era Steel (France), however, the company has not entered into any long-term contract with the suppliers.
- The company's supplier profile is concentrated with top 10 suppliers contributing to 96.66% of the total purchase in FY14.

BUSINESS ACTIVITY DETAILS

Key Raw materials	High Speed Steel
Level of Raw Material Price fluctuation risk	Moderate
Quality Certifications	No
Level of value addition	High

SUPPLY SIDE ANALYSIS

Average Creditor Days	28 days
Raw Material Availability	Adequate
Import as a % of RM Purchase	~80.00%

Comments:

- The raw materials (mainly High Speed Steel) are majorly imported. Furthermore, the raw material prices are moderately fluctuating in nature, hence, ETCT's profitability remains susceptible to the rise in the raw material prices.

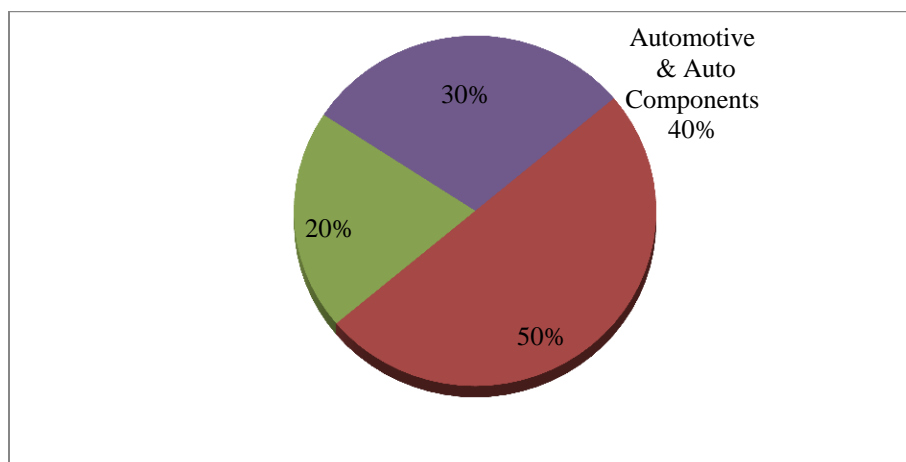
INDUSTRY ANALYSIS

Name of the industry	Machine Tools
Product portfolio	HI-Performance Thread Forming Taps, HI-Performance Spiral Fluted Taps, HI-Performance Spiral Pointed Taps, HI-Performance Taps for Cast Iron Tapping, HI-Performance Special Taps, PM Taps, Carbide Taps, Special Designed Roll Taps, Through Coolant Taps (T.C.H), Special Geometry—Spiral Fluted Taps, Special Geometry—Spiral Pointed Taps, Taps With Special Coatings
Overall Industry risk	Moderate
Level of competition	High

INDUSTRY WRITE-UP:

Introduction & User Industry Segmentation

The machine tools industry in India is the 16th largest in terms of production and 11th largest in terms of consumption of machine tools in the world. It is a home to around 1,000 units involved in the production of machine tools, accessories/ attachments, subsystems and parts thereof. Of these, around 25 units account for ~70% of the turnover of the industry, whereas the rest belong to the SME sector of the industry. The prospects of this industry are closely linked with the growth of and happenings in the end-user segments of machine tools, viz, automotive, auto components, railways, defense, electrical & electronics, telecommunication, textile machinery, ball & roller bearings, and consumer durables. Of all these, the prospects of the automotive industry have a large bearing on the machine tools industry, as ~40% of the machine tools consumption finds application in the automotive & auto components industry. The proportion of the broad user industry segments is as pictured below:

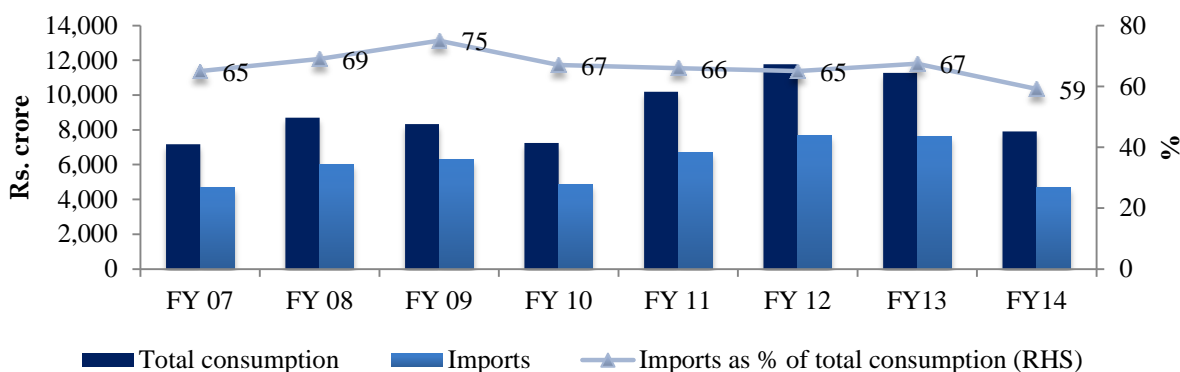


Source: Indian Machine Tool Manufacturers' Association (IMTMA)

Market Size & Broad Categories

The market size of the machine tools industry in India stood at Rs. 81.53 billion during FY14, of which the domestic consumption (domestic production + imports - exports) contributed to 96.98%, whereas the balance was contributed by the exports during the same year. India is largely dependent on imports of all kinds of CNC and non CNC machines (metal working, metal cutting and metal forming) used in manufacturing of machine tools, which are imported from various countries. This is reflected from the fact that 59.09% of the total consumption in the country during FY14 was met through the imports.

Trend of consumption and imports



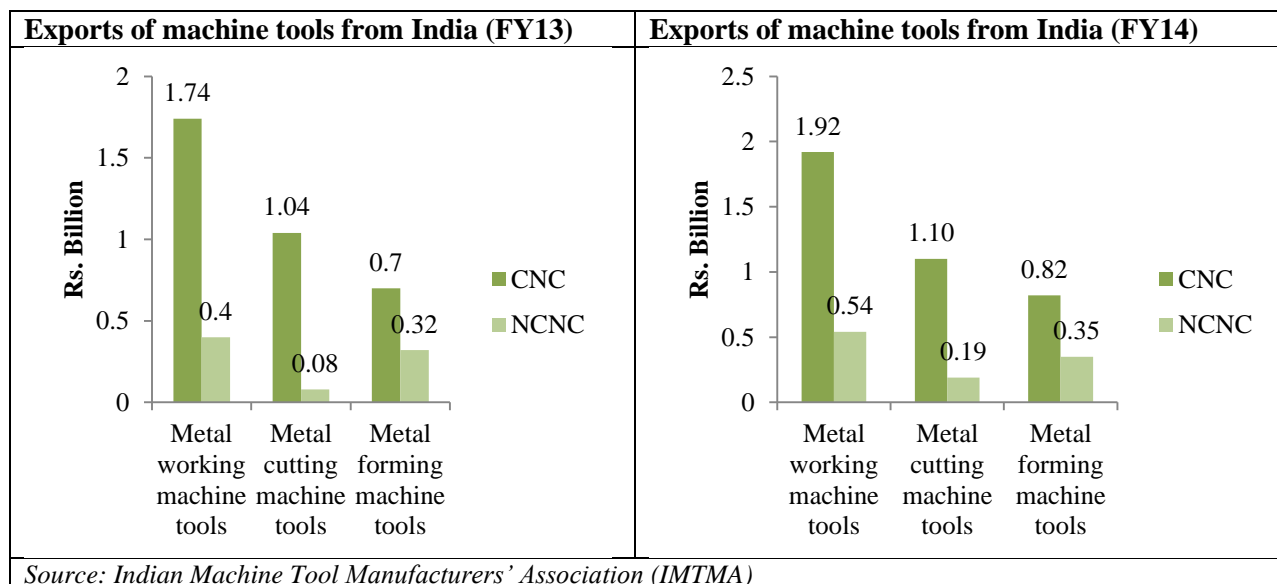
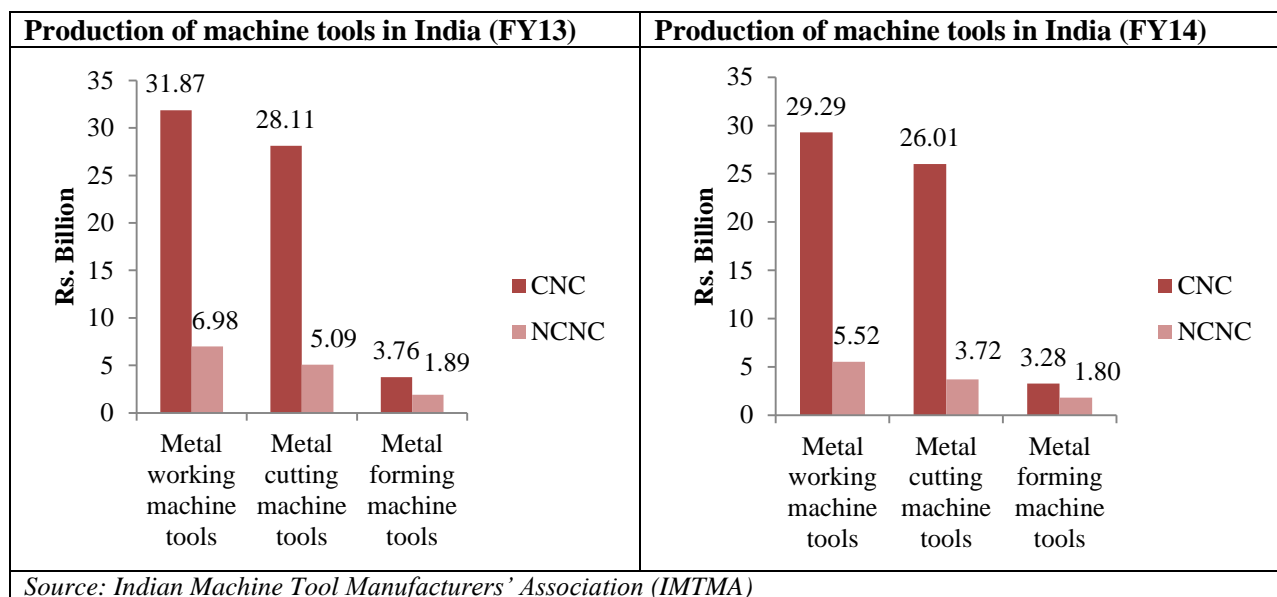
Source: Indian Machine Tool Manufacturers' Association (IMTMA)

The consumption of the machine tools in India has grown by a meager 1.42% CAGR over FY07-14, thereby reaching Rs.79.07 billion in FY14. Moreover, it has shown a fluctuating trend over the years owing to the fluctuating demand from the end-user segments, especially the automotive industry which is marked by the slowdown in the vehicle sales during many years between FY07 and FY14. However, the share of imports to the total consumption has also declined over the past 2-3 years along with the decline in the total consumption.

Raw materials form the major cost for the machine tools industry accounting for about 50% of the total operating cost. The machine tools industry consumes various raw materials like steel, non-ferrous metals, ferrous & non-ferrous alloys, castings and others; some of whose prices are volatile in nature.

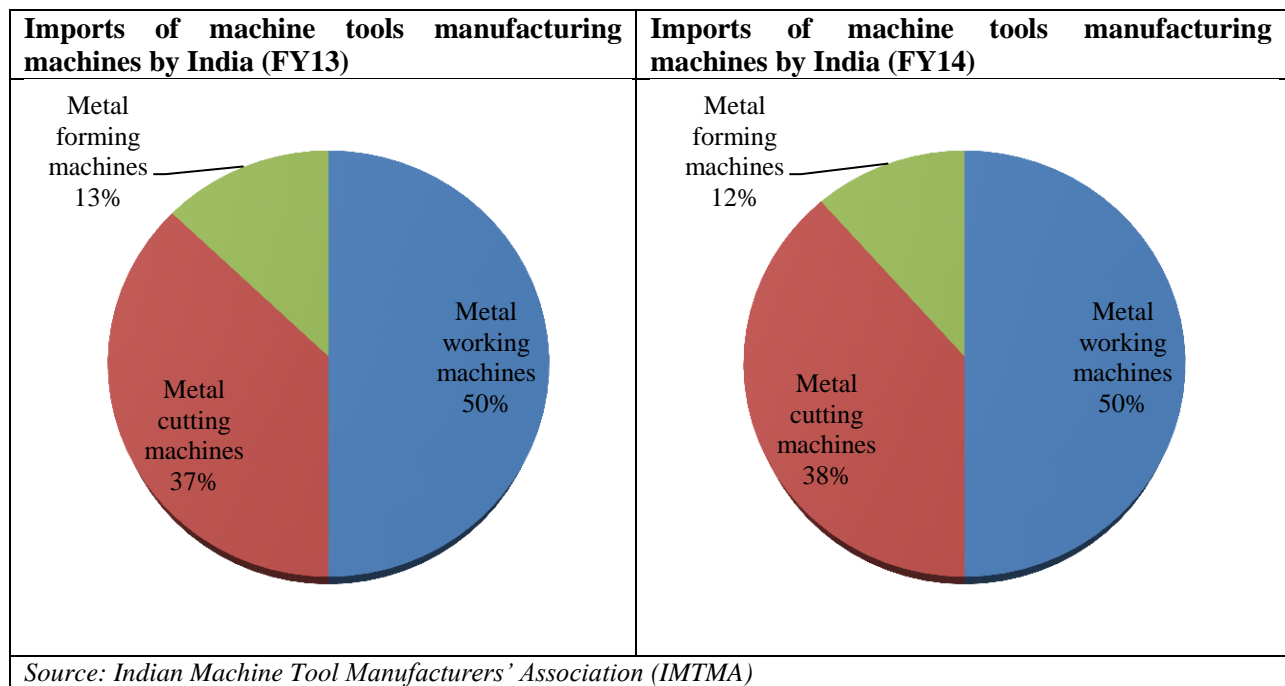
The machine tools, depending upon the method of manufacturing, are broadly classified into CNC-based and NCNC (non CNC)-based machine tools. Both the CNC and NCNC machines are

classified into metal working machines, metal cutting machines and metal forming machines for manufacturing the respective machine tools out of them.



The metal working machine tools constitute the highest share by value among all the three categories of machine tools manufactured, both in case of production and the corresponding exports during any particular year. The Computerised Numerical Control (CNC) machines are widely applied in the manufacturing of machine tools, given the ease of manufacturing by merely feeding the relevant technical functions into the said machines. This is evident from the above graphs that the CNC machines contribute to the major chunk of the value of machine tools

manufactured across all the three categories, both in case of domestic production and exports. On the other hand, the NCNC machines contribute less than 40% to the total value of machine tools manufactured across all the three categories during a year. However, the proportion of contribution of NCNC machines to the total production of machine tools is higher in case of metal forming machine tools (35% in FY14) than the metal working machine tools (16% in FY14) and metal cutting machine tools (13% in FY14), given the higher degree of customization required in the metal forming activity. Similarly, in case of exports, the NCNC machines contributed 30% to the total metal forming machine tools exports as compared with 22% and 15% contribution, respectively, to the metal working and metal cutting machine tools exports during FY14.



To meet the highest demand for manufacturing metal working machine tools among all the three categories, the metal working machines contribute the highest to the total machine tools machines imports by India during FY13 and FY14.

Prospects of Auto Component Industry in India

The Indian Auto Component Industry is gradually getting transformed from a low-volume, highly fragmented and a labour-intensive market to a competitive, value-added and technologically intensive market driven by the strengthening technology, efficiency and evolving

value chain. The industry witnessed a 14% CAGR growth over FY08-14 being valued at US\$ 35.1 billion (Rs. 2,118 billion) in FY14, of which the domestic market and the exports market are valued at US\$ 24.9 billion and US\$ 10.2 billion, respectively. It is a home to ~20,000 different components types across auto and auto ancillary industries. However, over the past 3 years, the industry has shown a continuous y-o-y decline in terms of investment in form of capital expenditure. While in FY11 almost US\$ 2 billion was invested, in FY12, it was in the range of US\$ 1.6-1.9 billion. It further dropped to US\$ 1.26-1.75 billion in FY13, whereas in FY14, an investment of around US\$ 0.5-0.7 billion was witnessed in the industry. This slump can be attributable to the moderation in vehicle sales, depressed market sentiments and a slowdown in the economy. Despite the demand slowdown in the end-user industry, the auto component industry is expected to witness a modest CAGR of 8-9% over FY16-20 owing to the ongoing increasing efforts of the Original Equipment Manufacturers (OEMs) to increase the dependability on indigenisation, thereby insulating themselves against the currency fluctuation risks inherent to the imports. This would pump in a fresh demand from the OEMs, including passenger vehicles, commercial vehicles and 2/ 4-wheelers. Moreover, the ongoing and upcoming expansion projects pipelines from both the new and the established players in the auto industry would also help cheer the muted demand for the auto components and ancillaries.

The demand for machine tools is also expected to rise, given the ongoing and upcoming investment pipelines of the auto component industry. Therefore, the following are one of the few expectations lying for the auto component industry from the machine tools industry:

- Improving reliability of Indian machines.
- Developing cost-effective solutions to reduce the prevalent gap between labor and automation.
- Eliminating or mitigating skill requirement for machine operations.
- Focusing on developing assembly equipment.

Prospects of Wind Energy in India

The Ministry of New and Renewable Energy (MNRE) is developing and promoting the deployment of various technologies with a view to enhance the installed capacity of on-grid and off-grid renewable energy in India. To facilitate the same, the government has been offering

various fiscal and financial incentives to the investors to increase the penetration of renewable energy in India. The installed capacity of renewable energy in India has grown from 3.9 GW in FY13 to 33.8 GW in December 2014. Of all the non-conventional sources, the wind energy has been a predominant contributor to this growth, accounting for 66.57% (22.5 GW or 22,465 MW) of the total renewable energy installed capacity in India as on December 2014, followed by small hydro power (3.99 GW, 11.80%), biomass (4.2 GW, 12.43%) and solar (3.06 GW, 9.06%).

Wind energy has emerged as the most successful renewable energy option in India, and at the same time, is the fastest growing renewable energy technology amongst various renewable energy options. Having a total installed capacity of 22.5 GW of wind energy as on December 2014; India is the 5th largest wind power generator in the world after China, USA, Germany and Spain.

The Wind Resource Assessment (WRA) Programme is an ongoing activity which has been organized and co-ordinated by the National Institute of Wind Energy (NIWE), Chennai (erstwhile Centre for Wind Energy Technology [C-WET]), in association with the state nodal agencies. It has so far been covered in 29 states and 3 union territories, involving establishment of 794 dedicated wind monitoring stations. Out of the total stations established so far, 237 stations have shown potential for commercial wind power installations and 109 stations are presently in operation.

Moreover, the MNRE has also taken a new initiative for implementation of wind resource assessment in uncovered/ new areas with a view to assess the realistic potential at 100 m level at 500 new stations across India under the National Clean Energy Fund (NCEF) to be implemented through NIWE.

The on-shore wind power potential in India has been estimated at 49.1 GW at 50 m height and 102.8 GW at 80 m height

To promote the wind energy development, the government has introduced a package of incentives which includes fiscal concessions such as, concessional custom duty for specific critical components, excise duty exemption, income tax exemption for 10 years on profits for wind power generation on wind power projects. Moreover, various State Electricity Regulatory Commissions (SERCs) like in Andhra Pradesh, Haryana, Punjab, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Gujarat, Kerala, Orissa and West Bengal have announced preferential

tariffs for purchase of power from wind power projects. Moreover, the MNRE had also announced a scheme on Generation Based Incentive (GBI) for Independent Power Producers (IPPs), who were not able to absorb the accelerated depreciation benefit. The scheme was discontinued in April 2012, but was later restored in September 2013, whereas the ceiling for GBI disbursement was increased from Rs.62 lakh/ MW to Rs.1 crore/ MW. Under the revised GBI scheme, capacity of 5,530 MW has been registered with IREDA so far. During the year, an amount of Rs.566 crore was kept for GBI scheme, which has been fully utilized.

SITE VISIT REPORT:

Manufacturing facility



Location of Plant	Plot No. B-27 and B-27/1, M.I.D.C. Industrial Estate, Hingna Road, Nagpur, Maharashtra-440 016
--------------------------	--

Sites visited	Plot No. B-27 and B-27/1, M.I.D.C. Industrial Estate, Hingna Road, Nagpur, Maharashtra-440 016
Presence in a cluster	No
Area of the unit	5231 square meter
No. of employees at site	108
Ownership of premises	Leased
Other facilities	Boundary wall, sign board, watchman,

Adequacy of Warehousing Facilities

Availability of land for future expansion	Adequate
Site layout	Structured
Adequacy of insurance coverage	Insured
Source of power	Maharashtra State Electricity Board
Adequacy of power	Adequate
Presence of labour union	No
Industrial relations	Good
Level of work safety	Low
Adequacy of storage facilities	Adequate
Operational status of plants	Operational

Comments: ETCT has one manufacturing facility and two wind mills as mentioned below; one unit for taps and cutting tools manufacturing and two units for its wind turbine generators.

Manufacturing units	Year of establishment	Products manufactured	Other details
Taps and cutting tools manufacturing	1981	HI-Performance Thread Forming Taps, Spiral Fluted Taps, Spiral Pointed Taps and other variants of taps.	The unit is equipped with CNC Thread Grinding and Flute Grinding machines for manufacturing High Performance Taps.
Wind Turbine Generator (Unit 1)– Karnataka -	2008	Power	WTG with capacity of 1.25 MW. ETCT has entered into an agreement with Suzlon Infrastructure Service Limited to operate and manage the WTG on behalf of ETCT.
Wind Turbine Generator– Rajasthan	2010	Power	WTG with capacity of 1.6 MW. ETCT has entered into an agreement with Enercon (India) Limited to operate and routine maintenance.

- ETCT has installed CNC Thread Grinding and Flute Grinding machines for manufacturing High Performance Taps which benefits the manufacturing facility in terms of reducing wastage, maintain quality consistency in the product and enables to manufacturing premium quality products.

Product-wise operational details

Particulars	Units	FY13	FY14	10MFY15
Product installed capacity				
H.S.S Ground Thread Taps	lakh	16.80	18.00	18.00
Product capacity utilization				
H.S.S Ground Thread Taps	%	57.89	47.87	57.96

Comment:

- Capacity utilization level has remained fluctuating over the years. The same was on the account of the subdued performance of Indian auto sector in FY14, and the same has improved again in 10MFY15 with revival in auto demand.

FINANCIAL PERFORMANCE - PROFITABILITY STATEMENT
Rs. In Lakh

Period Ends on:	March 31, 2010	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014	January 31, 2015
Result Type:	Actual	Actual	Actual	Actual	Actual	Actual
Number of months in current financial year	12	12	12	12	12	10
Net Sales	1,871.63	2,793.31	3,348.47	3,096.51	2,971.41	3,042.99
Other Income(related to operations)	27.73	42.57	151.51	48.38	65.97	210.73
Total Operating Income	1,899.36	2,835.87	3,499.97	3,144.89	3,037.38	3,253.72
Material Costs	402.33	619.71	841.62	743.49	540.72	444.55
Accretion : Decretion to Finished Goods Stock	-58.19	-100.87	(134.96)	(23.87)	(40.57)	-125.42
Consumable Stores	97.86	146.05	182.92	180.72	119.73	82.14
Power and Fuel	57.41	101.51	127.81	103.29	84.88	64.90
Employee Costs	126.65	187.04	206.19	214.96	241.66	293.11
Other Manufacturing Expenses	383.52	672.83	790.94	753.63	753.31	730.89
Other Expenses	58.48	55.68	60.14	64.44	64.43	69.47
Selling Expenses	44.87	78.58	63.95	80.62	75.06	69.64
Miscellaneous Expenses Written off			0.00	0.00	0.00	
Cost of Sales	1,112.93	1,760.54	2,138.6	2,117.28	1,839.22	1,629.27
PBILDT	786.43	1,075.34	1,361.37	1,027.61	1,198.16	1,624.45
Depreciation	118.91	300.99	277.03	287.56	256.92	299.02
PBIT	667.52	774.35	1,084.35	740.05	941.23	1,325.43
Interest and Finance Charges	49.91	76.13	57.24	26.9	7.09	7.63
Operating Profit Before Tax (OPBT)	617.61	698.22	1027.1	713.15	934.14	1317.80
Operating Profit After Tax (OPAT)	411.05	512.47	770.19	482.32	596.55	809.27
Non Operating Income / (Expense)	9.47	225.44	85.91	9.5	-36.4	0.00
Profit Before Tax (PBT)	627.08	923.66	1113.02	722.65	897.74	1317.80
Cash Adjustments	2.71	-2.04	-0.1	4.29	0.9	
Adjusted Profit Before Tax (APBT)	629.79	921.62	1,112.92	726.94	898.64	1,317.80
Tax	105	180	304.4	253	355	516.16
Provision for Deferred Tax	105.63	65.18	-26.02	-17.71	-30.23	-61.89
ADJUSTED PROFIT AFTER TAX	419.16	676.43	834.54	491.65	573.88	863.53

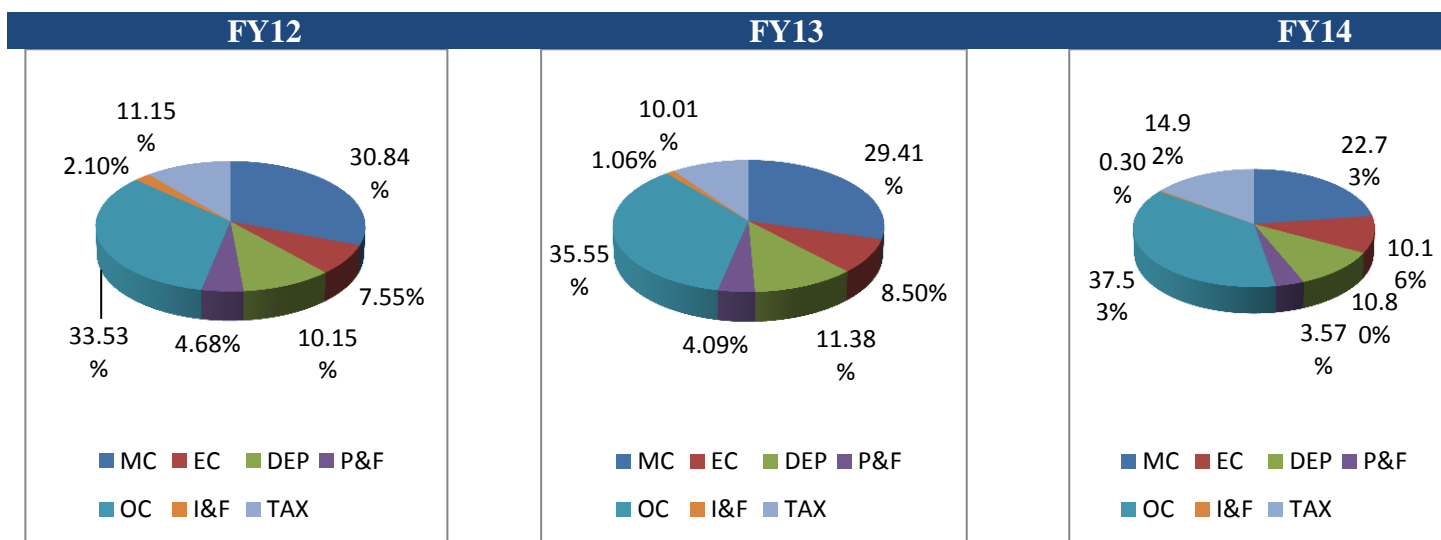
Period Ends on:	March 31, 2010	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014	January 31, 2015
(APAT)						
ADJUSTED PROFIT AFTER TAX & DISCONTINUING OPERATIONS	419.16	676.43	834.54	491.65	573.88	863.53
Gross Cash Accruals	643.7	1,042.61	1,085.54	761.51	800.57	1,162.55

Comments:
Revenue analysis

Parameters	FY10	FY11	FY12	FY13	FY14	CAGR (%) (FY10-FY14)	10M FY15
Net Sales	1,871.63	2,793.31	3,348.47	3,096.51	2,971.41	39.69%	3,042.99
% y-o-y growth	NM	49.24%	19.87%	-7.52%	-4.04%	-	-
Other Income (related to operations)	27.73	42.57	151.51	48.38	65.97	59.48%	210.73
% y-o-y growth	NM	53.52%	255.91%	-68.07%	36.36%	-	-
Total Operating Income	1,899.36	2,835.87	3,499.97	3,144.89	3,037.38	39.98%	3,253.72
% y-o-y growth	NM	49.31%	23.42%	-10.15%	-3.42%	-	-

- ETCT's total operating income (TOI) comprised sale of taps & cutting tools, wind power and other income. Sales of taps and cutting tools comprised of sale to domestic and international clients.
- The net sales have declined by 7.52% in FY13 and 4.04% in FY14 mainly on account of shift in client base from international to domestic market.
- Other income majorly comprises income from dividend, interest, exchange rate fluctuations and job work receipts. During FY12, other income improved to 255.91% mainly on account of income from job work of Rs.71.34 lakh. Furthermore, during FY13, no income was earned from job work business, while during FY14 job work, the income remained low at Rs.0.02 lakh.

FINANCIAL PERFORMANCE - COST STRUCTURE



MC = Material cost EC = Employee cost Dep = Depreciation P&F = Power and fuel I&F = Interest and finance charges OC = Other cost

Comments:

Material Costs constituted the highest pie in the cost structure during FY2012-14. While employee costs increased from Rs.206.19 lakh in FY12 to Rs.241.66 lakh in FY14, the power & fuel costs declined from Rs.127.81lakh in FY12 to Rs.84.88 lakh in FY14. Fixed capital charges (depreciation and finance costs) covered 10.80 portions of the total costs for FY14.

Material cost analysis

Parameters	FY10	FY11	FY12	FY13	FY14	10MFY15
Material cost (Rs. lakh)	402.33	619.71	841.62	743.49	540.72	444.55
% y-o-y growth	NM	54.03	35.81	-11.66	-27.27	-17.79
As % of TOI	21.18	21.85	24.05	23.64	17.80	13.66
As % to cost of sales	36.15	35.20	39.35	35.12	29.40	27.29

- ETCT being engaged in the manufacturing of taps and cutting tools, material cost is the largest cost component for the company. ETCT imports its raw material (mainly High Speed Steel) from Austria and France.

- Material costs have declined from Rs.841.62 lakh in FY12 to Rs.540.72 lakh in FY14 mainly on account of upgradation in the machinery, reducing the wastage with improved quality and better efficiency.
- Furthermore, it has been fluctuating in the range of 24.05% to 21.18% as a percentage of TOI during FY10-FY14.
- Furthermore, the raw material prices are moderately fluctuating in nature, hence, ETCT's profitability remains susceptible to the rise in raw material prices. However, the risk is mitigated to an extent on the back of established relationship with supplier.

Power & fuel cost

Parameters	FY10	FY11	FY12	FY13	FY14	10MFY15
Power & fuel cost (Rs. lakh)	57.41	101.51	127.81	103.29	84.88	64.89
% <i>y-o-y growth</i>	NM	76.82	25.91	-19.18	-17.82	-23.54
As % of TOI	3.02	3.58	3.65	3.28	2.79	1.99
As % to cost of sales	5.16	5.77	5.98	4.88	4.61	3.98

- Power & fuel (P&F) cost forms a significant part of the total operating expenditure of ETCT being a tool manufacturer, which remained in the range of 2.79% to 3.58% of TOI during FY2010-14.
- However, there has been a declining trend over FY12-FY14 in the P&F costs mainly on account of upgradation of plant & machinery and also the upgradation of oil supply system to the machinery.

Employee cost

Parameters	FY10	FY11	FY12	FY13	FY14	10MFY15
Employee cost (Rs. lakh)	126.65	187.04	206.19	214.96	241.66	293.10
% <i>y-o-y growth</i>	NM	47.68	10.24	4.25	12.42	21.29
As % to total operating income	6.67	6.60	5.89	6.84	7.96	9.01
As % to cost of sales	11.38	10.62	9.64	10.15	13.14	17.99

- ETCT employs considerable number of manpower for manual intervention in the process, quality control, dispatch and other functions. The total number of employees with the company stood at 108.

- Furthermore, ETCT has entered into an agreement with Khan Vyas Associates, Nagpur for supply of manpower at the manufacturing facility
- Employee cost remained at 7.96% of the TOI in FY14 (compared with 6.84% in FY13).

Selling & other operating cost items

Parameters	FY10	FY11	FY12	FY13	FY14	10MFY15
Selling Expenses (Rs. lakh)	44.87	78.58	63.95	80.62	75.06	69.64
% y-o-y	NM	75.13	-18.62	26.07	-6.90	-7.22
% of TOI	2.36	2.77	1.83	2.56	2.47	2.14
% of cost of sales	4.03	4.46	2.99	3.81	4.08	4.27
Other Manufacturing Expenses (Rs. lakh)	383.52	672.83	790.94	753.63	753.31	730.89
% y-o-y	NM	75.44	17.55	-4.72	-0.04	-2.98
% of TOI	20.19	23.73	22.60	23.96	24.80	22.46
% of cost of sales	34.46	38.22	36.98	35.59	40.96	44.86
Other operating Expenses (Rs. lakh)	58.48	55.68	60.14	64.44	64.43	69.46
% y-o-y	NM	-4.79	8.01	7.15	-0.02	7.82
% of TOI	3.08	1.96	1.72	2.05	2.12	2.13
% of cost of sales	5.25	3.16	2.81	3.04	3.50	4.26

- Selling expenses for ETCT have remained in the range of 1.83% to 2.77% of the TOI during FY2010-14.
- Furthermore, other manufacturing expenditure have also remained in the range of 20.19% to 24.80% of the total operating income during FY2012-14. Although other manufacturing expenses have increased relatively as a percentage of TOI in FY14, it has declined in absolute terms.
- Other operating expenditure declined as a percent of TOI from 3.08% in FY10 to 1.96% in FY11; however, it has remained in the range of 1.72% to 2.12% during FY11-14.

Depreciation

Parameters	FY10	FY11	FY12	FY13	FY14	10FY15
Depreciation (Rs. lakh)	118.91	300.99	277.03	287.56	256.92	299.02
% y-o-y growth	NM	153.12	-7.96	3.80	-10.66	16.39
As % of total operating income	6.26	10.61	7.92	9.14	8.46	9.19
Depreciation rate (% of average gross block)	4.67	5.81	5.26	4.97	4.07	NM

- Depreciation expense increased considerably from Rs.118.91 lakh to Rs.300.99 lakh in FY11 mainly on account of higher depreciation expensed on windmill unit at Rajasthan (operational for full year as compared with FY11) and purchase of plant & machinery worth Rs.69.67 lakh.
- Furthermore, depreciation expense have increased from Rs.256.92 lakh in FY14 to Rs.299.02 lakh in 10MFY15, mainly on account of purchase of plant & machinery worth Rs.42.68 lakh and motor car of Rs.48.45 lakh during the period.

Interest and finance charges

Parameters	FY10	FY11	FY12	FY13	FY14	10MFY15
Interest and Finance Charges (Rs. lakh)	49.91	76.13	57.24	26.9	7.09	7.62
% y-o-y growth	NM	52.53	-24.81	-53.00	-73.64	7.61
As % of TOI	2.63	2.68	1.64	0.86	0.23	0.23

- The total interest and finance charges have declined from Rs.76.13 lakh in FY12 to Rs.7.09 lakh in FY14 mainly due to schedule repayment of rupee term loan.
- Furthermore, the interest and finance cost comprised 0.23% of TOI in 10MFY15 mainly due to lower utilization of working capital limits.

FINANCIAL PERFORMANCE - BALANCE SHEET:ASSETS
(Rs. In Lakh)

Period Ends on:	March 31, 2010	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014	January 31, 2015
Result Type:	Actual	Actual	Actual	Actual	Actual	Actual
Gross Block	2,538.56	2,626.41	2,935.53	3,148.3	3,159.87	3,259.98
Accumulated Depreciation	-502.2	-801.16	-1,067.7	-1,347.15	-1,603.63	-1,902.82
Net Block	2,036.36	1,825.26	1,867.83	1,801.15	1,556.24	1,357.15
NET FIXED ASSETS	2,036.36	1,825.26	1,867.83	1,801.15	1,556.24	1,357.15
Other Investments	644.8	946.46	1,410.12	1,605.55	2,440.3	2,838.67
TOTAL INVESTMENTS :net of provision	644.8	946.46	1,410.12	1,605.55	2,440.3	2,838.67
Raw and Packing Materials	138.7	132.04	191.32	194.69	210.72	270.36
Work In Process	50.42	53.81	52.95	54.46	55.99	57.13
Finished Goods	217.27	318.14	453.1	476.97	517.54	641.81
Stores and Spares	15.11	16.79	19.08	28.21	31.56	42.92
TOTAL INVENTORIES	421.49	520.78	716.45	754.33	815.81	1,012.23
Receivables : More than 6 months	2.09	56.16	27.55	18.18	4.28	12.78
Receivables : Less than 6 months	493.89	667.94	753.9	673.22	740.64	945.69
TOTAL RECEIVABLES	495.98	724.11	781.45	691.4	744.92	958.47
Current Loans; Advances; current assets related to operations	94.26	153.96	232.46	104.51	110.89	136.87
Cash and Bank Balances	175.27	112.25	51.46	139.11	144	120.81
Advance Tax Paid	0	175.42	432.06	725.05	499.13	718.50
TOTAL OTHER CURRENT ASSETS	269.53	441.63	715.98	968.67	754.02	976.19
TOTAL CURRENT ASSETS related to operations	1,187	1,686.52	2,213.88	2,414.4	2,314.75	2,228.40
TOTAL ASSETS	3,868.16	4,458.23	5,491.83	5,821.1	6,311.29	7,142.73

Comments:
Fixed assets

- ETCT's fixed assets primarily comprise of plant & machineries, buildings, furniture and wind mill.
- During FY13, the company upgraded its manufacturing facility with updated technology with plant and machinery worth Rs.199.41 lakh added during the year.
- In FY15, ETCT invested in plant & machineries, office equipment and motor car, with a total addition of Rs.99.66 lakh.

Inventories

Parameters	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Raw and Packing Materials (Rs. lakh)	138.7	132.04	191.32	194.69	210.72	270.36
Average Raw Material Inventory Period (days)	NM	79	69	93	135	NA
						57.13
Work in Progress	50.42	53.81	52.95	54.46	55.99	NA
Average WIP Inventory Period	NM	11	9	9	11	641.81
						NA
Finished Goods (Rs. lakh)	217.27	318.14	453.1	476.97	517.54	42.92481
Average Finished Goods Inventory Period (days)	NM	57	67	82	101	1012.23
						NA
Stores and Spares (Rs. lakh)	15.11	16.79	19.08	28.21	31.56	14.17%
						270.36
Total inventories (Rs. lakh)	421.49	520.78	716.45	754.33	815.81	NA
Average Inventory Period (days)	NM	101	107	130	160	57.13
Total inventory as % of total assets	10.90%	11.68%	13.05%	12.96%	12.93%	NA

- Total inventory majorly constituted (about 63.43% in FY14) of finished goods inventory, ETCT maintains high level of finished goods inventory to in order to meet clients' demand on time. Furthermore, finished goods inventory period have been increasing from 57 days in FY11 to 101 days in FY14, primarily on the account of the increasing number of variants of the Taps manufactured.
- The Taps manufacturing is a raw material-intensive process with raw material cost accounting for around 29% of the total cost of sales for FY14. ETCT's raw material requirement is mainly imported from France and Austria thereby increasing the lead time.
- Moreover the raw material price fluctuation risk is being borne by ETCT.

Other investments

Particulars	FY10	FY11	FY12	FY13	FY14	FY15
Book value						
Shares	576.00	892.38	1,168.41	1,343.01	2,047.89	2,244.87
- Quoted	566.19	882.57	1,158.59	1,333.20	2,038.08	2,235.08
- Unquoted						
Mutual Fund	48.68	54.08	241.71	262.54	392.41	593.81
Market Value						
Shares (quoted)	837.93	953.51	1,110.48	1,202.49	1,819.12	3,139.56
Mutual Fund	45.48	49.34	237.45	255.38	454.76	1026.19

- The funds may be used for the future expansion plans, if the need arises.
- As per the management, going forward, they plan to consolidate the portfolio towards mutual funds.

Sundry debtors

Parameters	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Total Receivables (Rs. lakh)	495.98	724.11	781.45	691.4	744.92	958.48
Average Collection Period (days)	NM	68	68	72	73	NA
As % of net sales	26.50%	25.92%	23.34%	22.33%	25.07%	31.50%
As % of total assets	12.82%	16.24%	14.23%	11.88%	11.80%	13.42%

- The total receivable outstanding remained high at Rs.774.92 lakh (comprising 25.07% of net sales) with a collection period of 73 days. The collection period is high on account of higher credit period offered by ETCT to retain clients in high competitive industry characterized by various large incumbent players. Nevertheless, some comfort can be drawn as the company has been generally been dealing with reputed players, and thereby the counter-party risk is mitigated to an extent.

Ageing analysis of debtors
(Rs. Lakh)

Particulars	< one month	1-3 months	3-6 months	6-12 months	>12 months	Total
Debtors as on January 31, 2015	357.71	380.42	162.12	51.88	6.33	958.48
Debtors as on March 31, 2014	364.22	280.11	83.19	13.52	3.85	744.91

- During FY14 and 10MFY15; with the efficient receivable management, most of the receivables dues have been outstanding are for less than three months.

Other current assets
(Rs. Lakh)

Parameters	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Other current assets	269.53	441.63	715.98	968.67	754.02	976.19
As % of total assets	6.97	9.91	13.04	16.64	11.95	13.67
Other operating current assets	94.26	153.96	232.46	104.51	110.89	136.87
Advance tax paid	0.00	175.42	432.06	725.05	499.13	718.50
Income tax	0.00	175.42	430.27	725.05	498.10	718.01
TDS	0.00	0.00	1.79	0.00	1.03	0.49
Cash & bank balances	175.27	112.25	51.46	139.11	144.00	120.82
Cash on hand	0.89	0.51	0.62	0.41	0.62	0.68
Balances with banks in current accounts	174.38	56.18	50.84	138.70	143.38	120.14

- Other operating assets increased from Rs.754.02 lakh as on March 31, 2014, to Rs.976.19 lakh as on January 31, 2015, during the 10-month period mainly on account of increase in advance tax paid.
- ETCT had Rs.0.68 lakh in cash and Rs.120.14 lakh in bank as on January 31, 2014.

FINANCIAL PERFORMANCE - BALANCE SHEET: LIABILITIES
Rs. In Lakh

Period Ends on:	March 31, 2010	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014	January 31, 2015
Result Type:	Actual	Actual	Actual	Actual	Actual	Actual
Total Paid Up Equity Share Capital	84.61	84.61	84.61	84.61	84.61	71.14
GROSS RESERVES	2,252.46	2,928.89	3,763.43	4,255.08	4,871.06	5489.41
Intangible Assets	-5.09	-3.05	-1.83	-1.1	-0.66	0.00
NET RESERVES	2,247.37	2,925.84	3761.6	4,253.99	4870.4	5489.41
TANGIBLE NET WORTH	2,331.99	3,010.46	3,846.21	4,338.6	4,955.01	5560.55
Interest Free Loans	0.27	0.27	0.27	0.27	0.27	0.00
Rupee Term Loans	521.99	514.71	265.82	35.73	-	0.00
Other Long Term Loans	13.05	3.47	3.47	3.47	3.47	26.88
Loans and advances from promoters related parties	1.00	1.00	1.00	1.00	1.00	1.27
TOTAL LONG TERM DEBT	536.31	519.45	270.56	40.47	4.74	28.15
NET LONG TERM DEBT	536.31	519.45	270.56	40.47	4.74	28.15
Working capital Bank Borrowings	237.65	244.26	264.2	142.17	180.98	0.00
TOTAL SHORT TERM DEBT	237.65	244.26	264.2	142.17	180.98	0.00
Creditors for goods	138.86	68.45	186.53	143.17	141.91	243.43
Advances; deposits recd from customers :related to ops.	0.84	1.82	1.35	4.90	2.48	1.78
Other Current Liabilities :related to ops.	344.4	1.9	24.17	24.17	24.17	24.30
TOTAL CURRENT LIABILITIES	484.1	72.18	212.05	172.24	168.56	476.94
Provision for Taxes	0	180	484.5	733.21	607.1	820.01
Other Provisions ; regular	0	88.6	97.04	94.84	125.56	257.08
TOTAL SHORT TERM PROVISIONS	0	268.6	581.54	828.05	732.66	1,077.09
TOTAL CURRENT LIABILITIES AND PROVISIONS; RELATED TO OPERATIONS	484.1	340.78	793.59	1000.29	901.22	1,346.59
TOTAL OUTSIDE LIABILITIES	773.96	763.7	534.76	182.65	185.72	28.15
TOTAL LIABILITIES	3,868.16	4,458.23	5,491.83	5,821.1	6,311.29	7,142.74

Comments:

Equity share capital

- ETCT has 711,420 equity shares with a face value of Rs.10 each as on January 31, 2015.
- Furthermore, there has been a withdrawal of equity capital during 10MFY15 amounting to Rs.13.49 lakh.

Long-term borrowings

- The total long-term debt outstanding as on March 31, 2014, declined from Rs.40.47 lakh in FY13 to Rs.4.74 lakh in FY14 on account of repayment of rupee term loan (outstanding Rs.35.72 lakh as on March 31, 2013). Further unsecured loan from M/s. Shivam Techno Project Ltd of Rs.3.47 lakh have been repaid as on January 31, 2015.
- The long-term debt outstanding as on January 31, 2015 consisted of unsecured loans from relative of director and vehicle loan.
- Furthermore, during 10MFY15, the company availed vehicle loan of Rs.35.00 lakh, having an outstanding amount of Rs.26.88 lakh as on January 31, 2015.

Other long-term liabilities

Parameters (Rs. lakh)	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Deferred Tax Liability	278.11	343.29	317.27	299.56	269.33	207.44
As % of total liabilities	7.19%	7.70%	5.78%	5.15%	4.27%	2.90%

- Other long-term liabilities include deferred tax liabilities that have exhibited a declining trend, from Rs.343.29 lakh as on March 31, 2013, to Rs. 269.33 lakh as on March 31, 2014.

Short term borrowings

- Short term debt consists of cash credit facility (worth Rs.180.98 lakh outstanding as on March 31, 2014) having a total sanction limit of Rs.3.13 lakh, availed to meet its working capital requirement.

Trade payable

Parameters	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Trade payable (Rs. lakh)	138.86	68.45	186.53	143.17	141.91	243.4261
Average Creditors Period (days)	NM	21	21	28	28	NA
As % of total liabilities	3.59%	1.54%	3.40%	2.46%	2.25%	3.41%

- ETCT's trade payables outstanding as on March 31, 2014 include creditors for goods (primarily the amount due to the suppliers of raw materials). The average creditor's period stood at 28 days in FY14 & FY13.

Short term provision
(Rs. Lakh)

Parameters	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Total short term provisions	NM	268.6	581.54	828.05	732.66	1077.09
Provision for income tax	NM	180	484.5	733.21	607.1	820.01
Other Provision	NM	88.6	97.04	94.84	125.56	257.08
As % of total liabilities	NM	6.02%	10.59%	14.22%	11.61%	15.08%

- Total short-term provision includes provision for income tax, and provision for gratuity and statutory dues payables.
- The short-term provision increased from Rs.828.05 lakh as on March 31, 2013, to Rs.732.66 lakh as on March 31, 2014.

Details of the related party transactions

- The transactions with companies, entities owned and significant influence by directors comprise in the related party transactions of ETCT, the details of which have been mentioned below.

Related Party	Nature of the Relationship
Mr Ajayprakash Kanoria	Managing Director
Mrs Alka Kanoria	Director
Mrs Snehlata Kanoria	Mother of Managing Director
Ms Apoorvashri Kanoria	Daughter of Managing Director
Nagpur Tools Pvt. Ltd.	Group Company
Adishree Engineering Pvt. Ltd.	Group Company

(Rs. Lakh)

Name of related Party	Nature of transaction	March 2010	March 2011	March 2012	March 2013	March 2014	For ten months ended on January 31, 2015
Nagpur Tools Pvt. Ltd.	Loans Received	7.50	0	0	0	0	0
Adishree Engineering Pvt Ltd	Sales	0	0	2.72	0	0	0
Nagpur Tools Pvt. Ltd.	Job Work Expense	200.27	320.611	411.14	360.00	347.22	309.04
Adishree Engineering Pvt Ltd	Job Work Expense	18.47	18.51	24.37	31.31	28.54	21.94
Nagpur Tools Pvt. Ltd.	Interest	0.02	0	0	0	0	0
Mr Ajayprakash Kanoria	Loan Received	101.00	30.80	0	0	0	0
Mrs Alka Ajayprakash Kanoria	Loan Received	63.00	10.50	0	0	0	0
Mr Ajayprakash Kanoria	Remuneration	30.81	54.94	62.52	46.90	53.90	107.69
Mrs Alka Ajayprakash Kanoria	Remuneration	3.60	3.60	3.60	3.60	3.60	3.00

Details of Transaction with key management personnel

(Rs lakh)

Name of related Party	Nature of transaction	March 2010	March 2011	March 2012	March 2013	March 2014	For ten months ended on January 31, 2015
Mr Ajayprakash Kanoria	Loan Received	101.00	30.80	0	0	0	0
Mrs Alka Ajayprakash Kanoria	Loan Received	63.00	10.50	0	0	0	0
Mr Ajayprakash Kanoria	Remuneration	30.81	54.94	62.52	46.90	53.90	107.69
Mrs Alka Ajayprakash Kanoria	Remuneration	3.60	3.60	3.60	3.60	3.60	3.00

Details of Transaction with relatives of KMP

(Rs lakh)

Name of related Party	Nature of transaction	March 2010	March 2011	March 2012	March 2013	March 2014	For ten months ended on January 31, 2015
Ms Apoorvashree Kanoria	Salary	3.68	3.60	3.60	2.40	0	0
Mrs Snehlata Kanoria	Interest	0.15	0.15	0.15	0.15	0.15	0

Dividend Policy

- ETCT does not have a formal dividend policy. Furthermore, ETCT has not paid any dividend in the past five financial years.

FINANCIAL PERFORMANCE - SUMMARY OF RATIOS

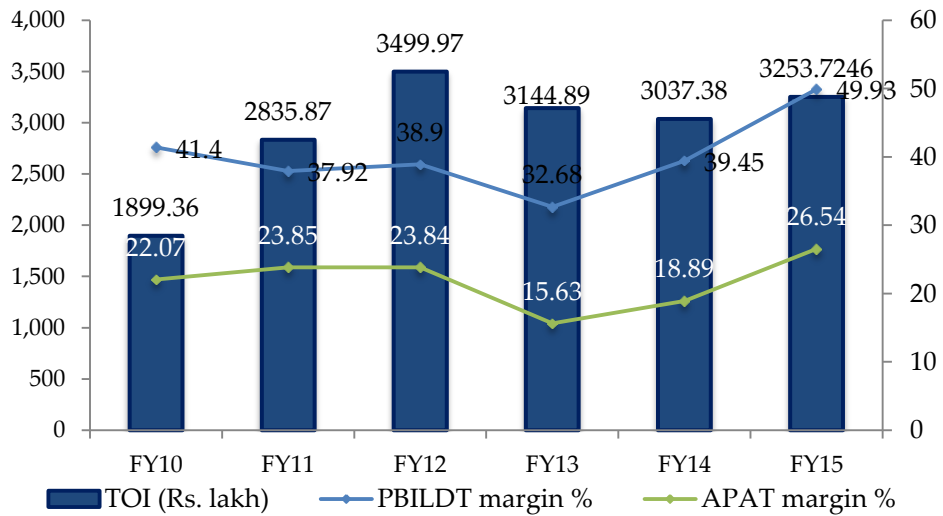
Period Ends on:	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Result Type:	Actual	Actual	Actual	Actual	Actual	Actual
KEY FINANCIAL RATIOS						
Growth Ratios						
Growth in Net sales	NM	49.24	19.87	-7.52	-4.04	2.41
Growth in Total Operating Income	NM	49.31	23.42	-10.15	-3.42	219.43
Growth in PBILDT	NM	36.74	26.6	-24.52	16.6	35.58
Growth in APAT	NM	61.38	23.37	-41.09	16.72	50.47
Profitability Ratios						
Gross Margin	81.61	83.75	81.52	80.08	85.58	93.52
PBILDT Margin	41.4	37.92	38.9	32.68	39.45	49.93
PBIT Margin	35.14	27.31	30.98	23.53	30.99	40.74
OPBT Margin	32.52	24.62	29.35	22.68	30.75	40.50
OPAT Margin	21.64	18.07	22.01	15.34	19.64	24.87
APAT Margin	22.07	23.85	23.84	15.63	18.89	26.54
Operating ROCE	NM	26.17	33.55	22.75	30.43	NA
ROCE (Total)	NM	26.63	26.53	15.74	17.69	NA
RONW	NM	25.32	24.34	12.01	12.35	NA
Average Cost of Borrowings	NM	9.90	8.82	7.5	3.85	NA
Turnover Ratios						
Operating Capital Turnover Ratio	NM	0.96	1.08	0.97	0.98	NA
Fixed Assets Turnover Ratio	NM	1.10	1.26	1.03	0.96	NA
Working Capital Turnover Ratio	NM	2.77	2.53	2.22	2.15	NA
Average Raw Material Inventory Period	NM	79	69	93	135	NA
Average Finished Goods Inventory Period	NM	57	67	82	101	NA
Average Inventory Period (days)	NM	101	107	130	160	NA
Average Collection Period (days)	NM	68	68	72	73	NA
Average Creditors Period (days)	NM	21	21	28	28	NA
Working Capital Cycle (days)	NM	148	154	174	205	NA
Solvency Ratios						
Debt Equity Ratio	0.23	0.17	0.07	0.01	0	0.01
Overall Gearing Ratio (Including Acceptances / Creditors on LC)	0.33	0.25	0.14	0.04	0.04	0.01
Overall Gearing Ratio (Excluding Acceptances / Creditors on LC)	0.33	0.25	0.14	0.04	0.04	0.01
Adjusted Debt Equity Ratio	0.23	0.17	0.07	0.01	0	0

Period Ends on:	March 2010	March 2011	March 2012	March 2013	March 2014	January 2015
Adjusted Overall Gearing	0.33	0.25	0.14	0.04	0.04	0.01
Term Debt (including CPLTD) / Gross Cash Accruals	0.83	0.5	0.25	0.05	0.01	0.02*
Total Debt / Gross Cash Accruals	1.2	0.73	0.49	0.24	0.23	0.02*
Interest Coverage (PBILDT / Interest)	15.76	14.13	23.78	38.21	169.01	212.91
PBIT / Interest	13.37	10.17	18.94	27.51	132.77	173.72
Adjusted Interest Coverage	15.76	14.13	23.78	38.21	169.01	212.91
Current Ratio	1.64	2.88	2.09	2.11	2.14	1.65
Quick Ratio	1.06	1.99	1.42	1.45	1.39	0.90

*- Annualised

FINANCIAL PERFORMANCE – PROFITABILITY Analysis

Profitability Analysis

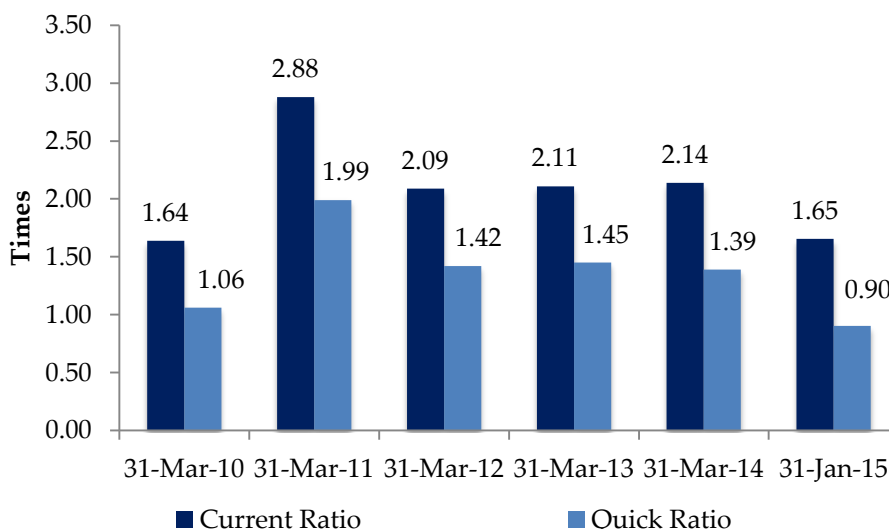


Comments:

- ETCT is engaged in manufacturing of taps and cutting tools. The products of the company provide high value addition.
- The PBILDT margins improved significantly from 32.68% in FY13 to 39.45% FY14 on account of upgradation of machinery resulting in lower input costs while maintain the product quality, resulting in improvement in profitability margins. Furthermore, the PBILDT margins have improved to ~49.93% during 10MFY15.
- With improvement in PBILDT, the PAT margin has also improved from 15.63% in FY13 to 18.89% in FY14. The PAT margin remained at 26.54% during 10MFY15.

FINANCIAL PERFORMANCE - LIQUIDITY ANALYSIS

Liquidity Analysis



Liquidity Ratio

Particulars	March 31, 2012	March 31, 2013	March 31, 2014
Working Capital Turnover Ratio	2.53	2.22	2.15
Average Raw Material Inventory Period	69.16	93	135
Average WIP Inventory Period	9.26	9	11
Average Finished Goods Inventory Period	66.91	82	101
Average Inventory Period (days)	107.34	130	160
Average Collection Period (days)	68.16	72	73
Average Creditors Period (days)	21.46	28	28
Working Capital Cycle (days)	154.04	174	205

Comments:

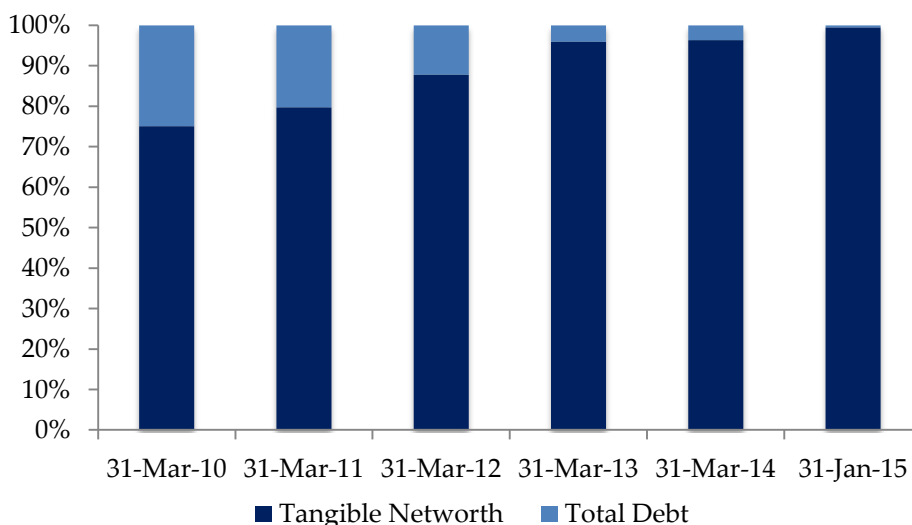
- ETCT’s liquidity position is comfortable marked by comfortable current ratio, quick ratio and moderate level of utilization of its working capital limit. While the current ratio was at 2.14 times, its quick ratio remained comfortable at 1.39 times as on March 31, 2014. The operations of ETCT are working capital intensive in nature as considerable funds are blocked in inventory and debtors.
- The company manufactures different type of Taps of various shapes, finishing and under various standards (viz, IS II, IS III, DIN, ISO 2, BS and others). Based on the above variations, ETCT manufactures around 7,500 products and same leads higher inventory holding. Furthermore, the end users in this industry follow a just-in-time approach for the purchase of Taps (as it forms minimal part of their total cost) and thus the company on

the estimation of its raw material requirements, purchases the same in bulk quantity. Moreover, the production time ranges from 15 days to 6 months resulting in some blockages in work-in-process inventory. The purchases of raw material and production of Taps is in accordance to discussion with OEMs (whom the ETCT sales teams meet on continuous basis) and the promoters understanding of the demand scenario. On the account of the above, the inventory days have remained elongated at 160 days for FY14 vis-à-vis 130 days in FY13.

- There has not been any major inventory write offs in past and ETCT has been able to sell the inventory.
- The total receivable outstanding remained high at Rs.774.92 lakh (comprising 25.07% of net sales) with a collection period of 73 days. The collection period is high on account of higher credit period offered by ETCT to retain clients in high competitive industry scenario. Nevertheless, some comfort can be drawn as the company has been generally been dealing with reputed players, and thereby the counter-party risk is mitigated to an extent.
- ETCT's trade payables outstanding as on March 31, 2014, include creditors for goods (primarily the amount due to the suppliers of raw materials). The average creditor's period stood at 28 days in FY14 & FY13 as ETCT has been offered credit period of upto 30 days to make payment against purchases.
- The cash flow from operating activities was positive, the unencumbered cash & bank balance was around Rs.144 lakh as on March 31, 2014.

FINANCIAL PERFORMANCE - FINANCIAL FLEXIBILITY

Capital Structure



Capital Structure Ratio

Particulars	March 31, 2012	March 31, 2013	March 31, 2014
Debt Equity Ratio	0.07	0.01	0.00
Overall Gearing Ratio (Including Acceptances / Creditors on LC)	0.14	0.04	0.04
Overall Gearing Ratio (Excluding Acceptances / Creditors on LC)	0.14	0.04	0.04
Adjusted Debt Equity Ratio	0.07	0.01	0.00
Adjusted Overall Gearing	0.14	0.04	0.04
Average Cost of Borrowings	8.81	7.50	3.85
Total Outside Liabilities to Networth	0.19	0.08	0.07

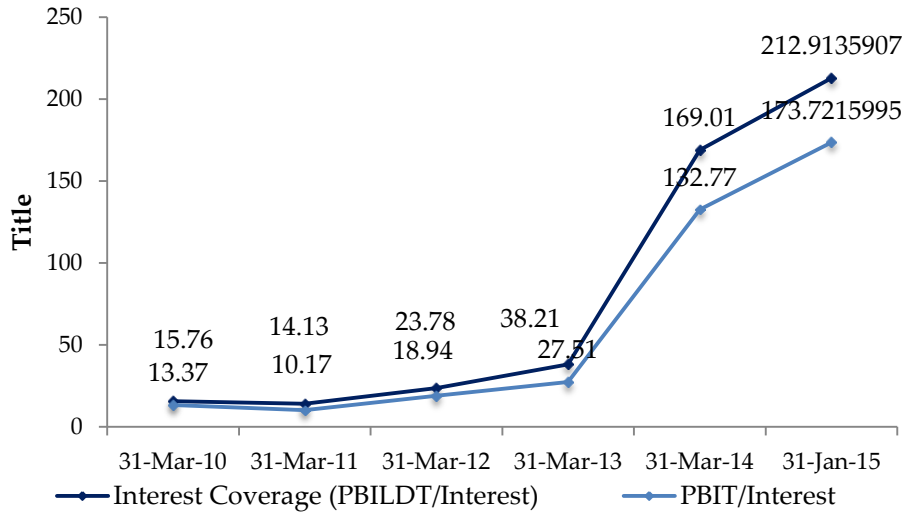
Comments:

The long-term debt level seems to be comfortable marked by debt equity of 0.001 as on March 31, 2014. The debt equity ratio has improved during the past 3 years from 0.07 times as on March 31, 2012, to of 0.001 as on March 31, 2014, mainly on account of repayment of rupee term loan.

The overall gearing level has remained comfortable and has further improved to 0.037 times as on March 31, 2014 (compared with 0.04 times as on March 31, 2013); mainly on account of accretion of profits. With comfortable gearing level and average creditors period at 28 days as on March 31, 2014; the total outside liabilities as compared with total net worth remained comfortable at 0.07 times as on March 31, 2014.

FINANCIAL PERFORMANCE - DEBT PROTECTION INDICATORS

Debt Coverage



Comments:

With low level of debt utilization, the debt coverage indicators of ETCT remained comfortable marked by total debt to GCA of 0.23 time as on March 31, 2014 (compared with 0.24 times as on March 31, 2013) and interest coverage of 169 times during FY14 (compared with 38.21 times during FY13). Moreover, during 10MFY15, the total debt to GCA has further improved to 0.02xon account of improved GCA.

BANKERS & AUDITORS DUE DILIGENCE

Stake holder		Feedback
Bankers & Lenders- Bank of Maharashtra	Mr T K Banerjee	Satisfactory
	Asst. General Manager	
	+712 2545009	
	July 10, 2015	
Auditor M/s. Vijay Agrawal & Company	CA Vijay Agrawal	Satisfactory
	Proprietor	
	+91 712 2426889	

Remarks

- The account is regular with the Bank of Maharashtra.
- The company has a vehicle loan with an outstanding amount of Rs.26.88 lakh as on January 31, 2015. The loan is repaid at a monthly EMI of Rs.1.11 lakh for 36 months

Key Findings

Key Findings	Company Comment	CARE Comment
<p>High Reliance on Promoter Family in key decision making</p> <p>Majority of the critical decisions in the company are being taken by the promoter family.</p> <p>Moreover, majority of the orders received has been received on account of its relationship with the top management developed over the past few years.</p>	<p>As per discussion, with the management, the promoters have plans to induct second generation of the family for various functions within the organization.</p> <p>Moreover, the company has stated that, there is second line of management, heading every function is experienced.</p>	<p><i>The details of the entire second line of management have not submitted in writing. However, during the plant visit, the CARE team has interacted with the department heads. They possess the required functional experience. However, the entire decision power continues to remain with Mr AjayPrakash Kanoria</i></p>
<p>Change in customer base from international to domestic</p>	<p>The management had an agreement with a European company to supply thread cutting tools, however the margin realized on export orders were proportionally low as compared with the domestic market, after the termination of the agreement the company has shifted its focus to the domestic market.</p> <p>Furthermore, the company had to price its product in a competitive international market; moreover products sold in the international market were not sold under the brand name of ETCT, leading to high bargaining power of customers. Moreover, as per the agreement, ETCT was not allowed to sell to anyone other than this company in international market.</p>	<p><i>The international market for machine tool being highly competitive and the agreement in effect restricted ETCT ability to price its product favorably and also market it. The focus shifted to domestic market will enable the company to increase its market share domestically; however, will continue to face competition from other well established players. However, the fortunes of the company would be dependent on the performance of India auto sector.</i></p>
<p>Working capital intensive in nature with inventory holding period of 160 days and collection period of 73 days during the 12 months ended March 2014.</p>	<p>ETCT maintains high level of finished goods inventory, to timely meet demand from clients, further as the company increases the quantity manufactured, its overall product cost is reduced. The collection period is high on account of higher credit period offered by ETCT to retain clients in high competitive industry. Nevertheless, some comfort can be drawn as the company has generally been dealing with reputed players, and thereby the counter-party risk is mitigated to an extent.</p> <p>Moreover, the company has been funding the working capital requirements with own funds and minimum utilization of the bank borrowings.</p>	<p><i>CARE understands that, since the end users in this industry follow a just-in-time approach for the purchase of Taps (as it forms minimal part of their total cost) and thus the company on the estimation of its raw material requirements, purchases the same in bulk quantity. Furthermore, the company faces competition from several well-established companies, hence, has to offer higher credit period to retain clients. ETCT has been dealing with well-reputed client, thereby mitigating counter party risk.</i></p>
<p>Operational linkages with group company i.e. Nagpur Tools Private Limited (NTPL) and Adishree Engineering Private Limited (AEPL)</p>	<p>NTPL is engaged in the manufacturing of HSS tools up to the initial stage of manufacturing including parting, facing/centering, turning milling and heat treatment on job work basis for ETCT only. AEPL does manufacturing and Selling all kinds of</p>	<p><i>There are operational and financial synergies being derived by the interlinked operations of the group companies.</i></p>

Key Findings	Company Comment	CARE Comment
	<p>engineering items, tools, cutting tools, machine tools, jigs, dies, moulds, spare parts, steel fabrication including, furniture, sheet metal works, however, only about 3% of its income is generated from job work done for ETCT.</p>	
<p>Dependence on performance of Indian auto sector and fluctuations in utilization of capacities</p>	<p>As per the discussion with management, the performance of the company is heavily dependent on the performance of Indian auto sector. As evidenced by declining scale of operations in FY13 & FY14 with slowdown in automobile industry during the same period. Furthermore, on account of this there have been fluctuations in capacity utilization.</p>	<p><i>As the companies' end-user industry is cyclical in nature, its scale of operations has been fluctuating. Furthermore, on account of concentration towards Indian auto sector the business of the company is highly correlated with performance of Indian auto sector.</i></p>
<p>Continuity of higher operating margins</p>	<p>The margins have improved significantly owing to installation of upgraded technology resulting in lowering input costs, this coupled with recovery in Indian auto industry during FY15. The management expects to further grow the scale of operations and continue to maintain higher margins with further utilization of the idle installed capacity.</p>	<p><i>With recovery in auto sector and utilization of idle capacity, the operating margins of ETCT are expected to remain same and/or grow going forward.</i></p>

Credit Analysis & Research Ltd.

CORPORATE OFFICE

MUMBAI

Credit Analysis & Research Ltd.

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.

Tel: +91-22-6754 3456, Fax: +91-22- 6754 3457, E-mail: care@careratings.com

ANDHERI, MUMBAI

503, Kaledonia, Sahar Road, Near Andheri Railway Station, Andheri (E), Mumbai - 400069.

Tel.: +91-22-6144 3456; fax: +91-22-6144 3556

REGIONAL OFFICES

AHMEDABAD

32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

Tel: +91-79-40265656, Fax: +91-79-40265657

BENGALURU

Unit No.1101-1102, 11th Floor, Prestige Meridian 2, No. 30, M .G. Road, Bangalore - 560001

Tel: +91-80-41150455 / 41654529; Telefax: +91-80-41514599

CHANDIGARH

2nd Floor, S.C.O. 196-197, Sector 34-A, Chandigarh - 160022.

Tel: +91-172-5171100 / 09

CHENNAI

Unit No.O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002.

Tel : +91-44-2849 7812/2849 0811; Fax: +91-44-28490876

COIMBATORE

T-3, 3rd Floor, Manchester Square, Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

HYDERABAD

401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029.

Tel: +91-40-40102030, Fax: +91-40-40020131

JAIPUR

304, PashupatiAkshat Heights, Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park, Jaipur - 302016.

Tel: +91-141-4020213 / 14

KOLKATA

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata - 700 071.

Tel: +91-33- 40181600 / 02; Fax: +91-33-40181603

NEW DELHI

13th Floor, E-1 Block, Videocon Tower, Jhandewalan Extension, New Delhi - 110055

Tel: +91-11-45333200, Fax: +91-11-45333238

PUNE

9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, SenapatiBapat Road, Shivaji Nagar, Pune - 411015.

Tel:+91-20-40009000

MALDIVES

4th Floor, CHAMPA Center Point, ChandhaneeMagu, Male' Republic of Maldives.

Tel:+960-3330560 / +9603330561; Mobile: +960-990 9981 / +960 7958107; Fax: +960-3330562