



# Sakthi Gear Products (SGP)

## Rating Rationale

**March 13, 2015**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	6.00	SMERA BB-/Stable (Assigned)
Term Loan	0.27	SMERA BB-/Stable (Assigned)
Letter of Credit I	1.10	SMERA A4 (Assigned)
Letter of Credit II	0.54	SMERA A4 (Assigned)
Letter of Credit III	0.47	SMERA A4 (Assigned)
Letter of Guarantee I	0.01	SMERA A4 (Assigned)
Letter of Guarantee II	0.04	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA BB-**' (read as **SMERA double B minus**) and **SMERA A4** (read as **SMERA A four**) to the abovementioned bank facilities of Sakthi Gear Products (SGP). The outlook is '**Stable**'. The ratings are supported by the firm's established track record of operations, experienced management and moderate debt protection metrics. However, the ratings are constrained by the firm's stretched liquidity position. The ratings are also constrained by the firm's exposure to customer concentration risk amidst intense competition in the engineering components industry.

SGP, established in 1991, is a Coimbatore-based partnership firm engaged in manufacturing of valves, gears and gear boxes. SGP benefits from its experienced management. The partners of the firm have around 30 years of experience in the engineering components industry. SGP has moderate debt protection metrics marked by debt-to-capital ratio of 1.41 times as on March 31, 2014 and interest coverage ratio of 1.84 times in FY2013-14 (refers to financial year, April 01 to March 31).

SGP is exposed to customer concentration risk as the firm derives ~70 per cent of its revenues from single customer. SGP faces intense competition from several players in the engineering components industry.

### **Outlook: Stable**

SMERA believes SGP will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm achieves sustained improvement in profit margins while maintaining healthy revenue growth and achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues and profit margins, or in case of deterioration in the firm's working capital management.

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SMERA RATINGS LIMITED

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## About the firm

SGP, established in 1991, is a Coimbatore-based partnership firm promoted by Mr. K. Shanmuga Sundaram and Mr. Easwaran. SGP is engaged in manufacturing of valves, gears and gear boxes.

For FY2013–14, SGP reported profit after tax (PAT) of Rs.0.90 crore on operating income of Rs.42.16 crore, as compared with PAT of Rs.0.79 crore on operating income of Rs.33.58 crore in FY2012–13. The firm's net worth stood at Rs.5.72 crore as on March 31, 2014, as compared with Rs.4.98 crore a year earlier.

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