



SMERA RATINGS LIMITED

Sakthi Gear Products (SGP)

*Rating
Rationale*

April 09, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	6.00*	SMERA BB/Stable (Upgraded from SMERA BB-/Stable)
Term Loan	1.38	SMERA BB/Stable (Upgraded from SMERA BB-/Stable)
Letter of Credit	0.47	SMERA A4+ (Upgraded from SMERA A4)
Letter of Guarantee	0.05	SMERA A4+ (Upgraded from SMERA A4)
Bank Facility (Proposed)	0.53	SMERA BB/Stable/SMERA A4+ (Assigned)

**Includes Packing Credit as a sublimit to the extent of Rs.6.00 crore*

SMERA has upgraded the rating of the Rs.7.90 crore bank facilities of Sakthi Gear Products (SGP) to **'SMERA BB' (read as SMERA double B)** and **'SMERA A4+' (read as SMERA A four plus)** from **'SMERA BB-' (read as SMERA double B minus)** and **'SMERA A4' (read as SMERA A four)**. The outlook is **'Stable'**. Further, SMERA has assigned rating of **'SMERA BB' (read as SMERA double B)** and **'SMERA A4+' (read as SMERA A four plus)** on the Rs.0.53 proposed bank facility of SGP.

The rating upgrade is in view of the improvement in liquidity position and healthy profitability in the financial year ended as on 31st March, 2015. Further, the revenue is also expected to improve in the current financial year ended as on 31st March, 2016. The ratings continue to draw support from the established track record of operations, experienced management and moderate financial risk profile. However, the ratings are constrained by exposure to customer concentration risk amidst intense competition in the engineering components industry. The ratings also factor in the susceptibility of profit margins to volatility in raw material prices.

Update

In FY2014-15, the firm reported profit after tax (PAT) of Rs. 1.01 crore on operating income of Rs. 42.91 crore, as compared to PAT of Rs.0.63 crore on operating income of Rs.42.16 crore in the previous year. The revenue remained stable because of muted demand from end-user industries. Further, the firm has reported operating income of Rs.44.46 crore for the eleven months ended February, 2016 (provisional). In FY2014-15, the profitability margin improved significantly on account of decrease in raw material prices and high bargaining power with customers and suppliers. The gearing is comfortable at 1.25 times as on March 31, 2015 and interest coverage ratio stood at 1.77 times in FY2014-15. However, the Return on Capital Employed (RoCE) improved to 25.55 per cent in FY2014-15. SGP has maintained comfortable liquidity position evident by

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average cash credit limit utilisation of around 77 per cent during the six months ended February, 2016.

Rating Sensitivity Factors

- Scaling up of operations while maintaining adequate profitability
- Diversification of customer base
- Effective working capital management

Outlook: Stable

SMERA believes that SGP will continue to benefit over the medium term from its experienced promoters. The outlook may be revised to 'Positive', if the firm achieves higher than expected revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue and profitability or deterioration in the liquidity position or financial risk profile of the firm.

About the Firm

SGP, established in 1991, is a Coimbatore-based partnership firm promoted by Mr. K. Shanmugasundaram and Mr. K. Easwaran. The firm is engaged in the manufacture of valves, gears and gear boxes.

In FY2014-15, the firm reported profit after tax (PAT) of Rs.1.01 crore on operating income of Rs.42.91 crore, as compared to PAT of Rs.0.63 crore on operating income of Rs.42.16 crore in the previous year.

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