

Press Release

Sathyam Auto Engg Private Limited

30 June, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.18.00 Cr
Long Term Rating	SMERA B/ Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B**' (read as SMERA B) on the Rs.18.00 crore bank facilities of Sathyam Auto Engg Private Limited (SAEPL). The outlook is '**Stable**'

SAEPL, erstwhile a partnership firm established in 2004 was incorporated as a private limited company in 2016. The company is engaged in manufacturing of body parts for automobiles, mainly passenger cars and is a Tier 2 supplier to Hyundai, Renault and Yamaha. Special Wire Products Private Limited (SWPPL), incorporated in 1990 is engaged in manufacturing insulated wire and cable and other insulated conductors; used in large capacity machines or control equipment. The business of SWPPL is to be merged with SAEPL in FY2017-18. The manufacturing facility of the companies is located at Ambattur, Chennai and is headed by Mr. Palaniappan Rajendran.

Analytical approach: SMERA has consolidated the financials risk profiles of Sathyam Auto Engineering Private Limited (SAEPL) and Special Wire Products Private Limited (SWPPL) to arrive at the rating. The consolidation is in view of the impending merger of SWPPL with SAEPL in FY2017-18. The entities are jointly referred to as SAEPL.

List of Key Rating Drivers and their detailed description

Strengths

Long track of operations with experienced management: SAEPL benefits from its long track record of operations. The promoter of the group, Mr. Palaniappan Rajendran has more than two decades of experience in the auto ancillary industry.

Moderate profitability: The operating margins of SAEPL have remained moderate at 5.03 percent in FY2015-16 compared to 4.74 percent in FY2014-15. Further, the PAT margins stands at 1.03 percent in FY2015-16 against 0.96 percent in FY2014-15. SAEPL has moderate RoCE of 10.26 percent in FY2015-16.

Weaknesses

Modest Scale of Operations: The scale of operations of SAEPL is moderate as evident by revenues of Rs.32.10 cr for FY2015-16 as compared to Rs.31.46 cr for FY2014-15. The scale of operations has

remained moderate on account of intense competition in the auto ancillary industry arising from several organised as well unorganised players in the industry.

Average financial risk profile: SAEPL has average financial risk profile marked by networth of Rs.3.54 crore and gearing of 1.53 times as on 31 March 2016 compared to networth of Rs.3.63 crore and gearing of 1.36 times as on 31 March 2015. Total debt of Rs.5.42 crore comprises of short term borrowings of Rs.2.18 crore, long term borrowings of Rs.2.81 crore and unsecured loan from directors of Rs.0.43 crore as on March 31, 2016. SAEPL's debt protection metrics are comfortable as interest coverage ratio (ICR) and DSCR (debt service coverage ratio) stood at 2.43 times and 2.46 times respectively in FY2015-16.

Debt funded capex plan: SAEPL plans to shift its manufacturing facilities from Ambattur to Sriperumbudur (Tamil Nadu). Cost of the project is Rs.17.00 cr which will be partly funded by term loan of Rs.12.80 cr and remaining through promoter's contribution. SMERA believes that the quantum of term loan will put pressure on financial risk profile of SAEPL.

Outlook: Stable

SMERA believes that the outlook on SAEPL will remain stable over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' if the company achieves substantial increase in revenue and sustained improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's capital structure or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded capex.

About the rated entity - Financials

For FY2015-16, SAEPL reported profit after tax (PAT) of Rs.0.33 crore on operating income of Rs.32.10 crore as compared with PAT of Rs.0.30 crore on operating income of Rs.31.46 crore in the previous year. The net worth stand at Rs.3.54 crore as on March 31, 2016 compared to net worth of Rs.3.63 crore as on March 31, 2015.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Applicable Criteria

- Manufacturing Entities: <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Rating History for the last three years: Not Applicable

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	N.A	N.A	N.A	4.70	SMERA B/Stable (Assigned)
Term Loan Proposed	N.A	N.A	N.A	13.30	SMERA B/Stable (Assigned)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Hina Gupta, Senior Rating Analyst, Tel: +91-22-6714 1320 Email: hina.gupta@smera.in	

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