

Press Release

Sanauto Engineers India Private Limited (SEIPL)

24 November, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.25 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+** (**read as SMERA BB plus**) and short-term rating of '**SMERA A4+**' (**read as 'SMERA A four plus**) on the Rs. 12.25 crore bank facilities of Sanauto Engineers India Private Limited.

Established in 1988, Sanauto Engineers India Private Limited (SEIPL) is engaged in the manufacture and export of gears and spline used in the engineering industry. The company has three manufacturing facilities at Faridabad, Haryana with total installed capacity of 7, 00,000 parts per annum. The company majorly serves aerospace and oil and gas industries and has undertaken expansion plans to increase installed capacity to 10, 00,000 parts per annum. The said expansion is scheduled to be completed by April 2018.

Key Rating Drivers

Strengths

- **Long track of operations with experienced management**

The company was incorporated in 1988 and is engaged in the manufacturing and export of gears and spline parts used mainly in aerospace and oil and gas industries. The promoter, Mr. Raj Kumar Karwa has around three decades of experience in the engineering industry.

- **Improving trend in operating profitability**

The operating margins of SEIPL have remained healthy at 19.32 percent in FY2017 compared to 17.58 percent in FY2016. The improvement in margins has been mainly due to reduction in material costs due to increase in job work income as a percentage of operating income. Also, the company has increased sale of value added products related to aerospace industry resulting in better margins. Further the PAT margins stands at 2.96 percent in FY2017 against 2.47 percent in FY2016.

- **Reputed clientele**

The company caters to a reputed client base including GE Aviation, USA; Liebherr Aerospace, Germany; Gibbs gears, United Kingdom among others. Over the years, the company has been able to establish comfortable relationships with its key customers and suppliers.

Weaknesses

- **Declining and moderate scale of operations**

The scale of operations of the company is moderate as evident from revenues of Rs.24.39 crore for FY2017, Rs 25.25 crore for FY2016 and Rs.33.80 crore for FY2015. Revenue witnessed a declining trend over the past two years due to decline in crude oil prices during FY2014 and FY2015, which impacted orders of the oil and gas division. As on September 2017, the company has order book worth of Rs 20.0 crore towards aerospace division which lends moderate revenue visibility over the medium term. SEIPL has clocked revenue of around Rs 16.32 crore till September 2017 (Provisional).

- **Average financial risk profile**

The financial risk profile of the company is marked by modest networth and gearing levels and comfortable debt protection metrics. The networth levels of the company stood at Rs. 12.09 crore as on 31 March, 2017 as compared to Rs. 11.37 crore in the previous year. The gearing levels stood at 1.43 times as on 31 March, 2017 as against 1.08 times in the preceding year. The total debt of the company stood at Rs 17.26 crore, which includes long term debt of Rs 13.47 crore and short term debt of Rs 1.44 crore. The company is currently undertaking a capex for expansion of its manufacturing facilities with an estimated fund outlay of around Rs. 10.90 crore. The said capex is expected to be funded from Rs. 6.50 crore of bank borrowings and the balance from own sources. The incremental debt to be contracted over the medium term would result in deterioration of the gearing levels of the company. The company's debt protection metrics are comfortable with interest coverage ratio (ICR) and DSCR (debt service coverage ratio) stood at 3.88 times and 1.83 times respectively in FY2017.

Analytical Approach

SMERA has considered standalone business and financial risk profiles of SEIPL.

Outlook: Stable

SMERA believes that the outlook on SEIPL will remain 'Stable' over the medium term on account of the experienced management. The outlook may be revised to 'Positive' in case the company achieves substantial growth in revenue while maintaining operating profit margins and improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and operating profit margins or deterioration in financial risk profile on account of debt funded cap-ex plans.

About the Rated Entity - Key Financials

For FY2016-17, SEIPL reported profit after tax (PAT) of Rs.0.72 crore on operating income of Rs.24.39 crore as compared with net profit of Rs.0.62 crore on operating income of Rs.25.25 crore in the previous year. The net worth stands at Rs.12.09 crore as on 31 March, 2017 compared to Rs.11.37 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto 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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.80	SMERA BB+/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.70	SMERA BB+/ Stable
Term Loan I	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB+/ Stable
Term Loan II	Not Applicable	Not Applicable	Not Applicable	3.50^	SMERA BB+/ Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.25	SMERA A4+

[^]Includes sublimit of Rs 2.50 Crore of Letter of Credit.

Contacts

Analytical	Rating Desk
Vinayak Nayak Head - Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Sethu Madhav Putti Rating Analyst Tel: 022-67141179 sethu.madhav@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.