

Press Release

Sivasakthi Engineering Company (SEC)

16 March, 2018



Rating Assigned

Total Bank Facilities Rated	Rs. 20 crore
Long Term Rating	SMERA B+/ Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA B+' (read as SMERA B plus)** and short term rating of **'SMERA A4' (read as SMERA A4)** on the Rs.20.00 crore bank facilities of SIVASAKTHI ENGINEERING COMPANY' (SEC). The outlook is **'Stable'**.

SEC, a Bangalore-based partnership firm established in 1979 by Mr. R K Kaleswaran and his family is engaged in the manufacturing of open top barrels and loop barrels. The firm has two manufacturing units at Bangalore and Ranipet with installed capacity of around 1500 barrels per day.

Key rating drivers

Strengths

Experienced management, long track record of operations

SEC is a family run business established in 1979 as a partnership firm. The partners of the firm have around three decades of experience in the said line of business. SMERA believes that, SEC will benefit from its experienced management and long track record of operations.

Established relations with reputed clients

The firm caters to reputed customers- Bharat Petroleum Corporation Limited, Food and Inns Limited, Mother Dairy and Fruit and Vegetable Private Limited among others. Further, the firm has established relations with suppliers such as JSW steel Limited and SAIL. SMERA believes that the firm will benefit from its established relations with customers and suppliers in the medium term.

Weaknesses

Modest scale of operations

Despite operations commencing in 1979, revenues have been modest at Rs. 20.47 crore in FY2017 as against Rs. 17.89 crore in FY2016 and Rs. 23.98 crore in FY2015. Further, for the 10MFY2018, the firm generated revenue of Rs. 22 crore.

Volatility in raw material prices

The operating margins have registered 13.17 percent in FY2017, 16.64 percent in FY2016 and 11.05 percent in FY2015 on account of fluctuations in raw material cost which constituted around 59.95 percent of total sales in FY2017 as against 56.04 percent in FY2016 and 64.75 percent in FY2015. The basic raw material required is CR coil (Mild steel). Hence, any adverse movements in steel prices can impact the profitability of the firm.

Significant exposure to group concerns

The firm has extended advances to group concern, M/s R. Kuppaswamy, a partnership firm. As on 31 March, 2017, the same constituted Rs. 5.76 crore, which is 49 percent of the total tangible net worth. Further, the firm invested Rs. 2.79 crore in R.K. Steel Traders which constituted 24 percent of the net worth as on 31 March, 2017. Any adverse changes in the credit risk profile of these entities can affect the ability of SEC to unwind these expenses.

Risk related to ongoing capex plan

The firm plans to set up a facility to manufacture recondition barrels at a total project cost of Rs. 7 crore. During FY2015-FY2017, SEC invested around Rs. 4 crore in land, machinery among others with the rest to be funded through bank loan of Rs. 2 crore and Rs.1 crore of unsecured loans from related parties. Operations are expected to commence from January 2019. Any significant delay or cost overruns in project execution can impact business and financial risk profile of the firm.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SEC to arrive at the rating.

Outlook – Stable

SMERA believes that SEC will maintain a Stable outlook and benefit over the medium term from its long track record of operations, experienced management and established relations with suppliers and customers. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues while improving margins. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving expected revenues or deterioration in the financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	20.47	18.89	23.98
EBITDA	Rs. Cr.	2.69	3.14	2.65
PAT	Rs. Cr.	0.29	0.73	0.83
EBITDA Margin	(%)	13.17	16.64	11.05
PAT Margin	(%)	1.42	3.88	3.44
ROCE	(%)	7.18	10.28	23.10
Total Debt/Tangible Net Worth	Times	1.45	1.89	1.53
PBDIT/Interest	Times	1.78	2.32	2.08
Total Debt/PBDIT	Times	5.93	5.45	4.87
Gross Current Assets (Days)	Days	260	284	202

Any other information:

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): None

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
Term loans	Not Applicable	Not Applicable	Not Applicable	0.48	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.28	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.28	SMERA B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable
Stand By Line of Credit	Not	Not	Not	0.75	SMERA B+ /

	Applicable	Applicable	Applicable		Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.96	SMERA B+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.25	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA A4

Contacts:

Analytical	Rating Desk
<p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in</p> <p>Naveen Papisetty Analyst-Rating Operations Tel: +91-22-6714 1148 Email: naveen.papisetty@smera.in</p>	<p>Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in</p>

ABOUT SMERA

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