

Press Release

SM Mukki Marine Engine Gear Boxes Private Limited

April 30, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 10.00 crore bank facilities of SM Mukki Marine Engine Gear Boxes Private Limited (SMPL). The outlook is '**Stable**'.

Incorporated in 2016, SMPL is Nagercoil (Tamil Nadu) based company engaged in assembling and manufacturing of marine gear boxes, marine engine and ancillary parts. The company is promoted by Mr. Sudalaiyandi Murugan and family. SMPL has its manufacturing facility is located at Nagercoil with installed capacity of 7,200 units per annum.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of SM Marains Advances Gear Boxes India Private Limited (SAPL) and SM Mukki Marine Engine Gear Boxes Private Limited (SMPL), together known as SM Group, to arrive at this rating. The consolidation is on account of common promoters, similar line of business and significant operational linkages in terms of sale and purchases. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Experienced management**

The promoters have vast experience in trading and service of marine engine and gearbox by virtue of their association with SM Engineering Works (1962) and SM Marains Advance Gear Boxes India Private Limited (SAPL) (2006). The group is an authorised dealer of Hangzhou Advance Gearbox Group Co (China) and Sinotruk Limited (China) in India. The extensive experience of the promoters has helped the group in establishing long standing relationship with fishermen community across 11 coastal state. The group has a wide presence across the coastal line with 29 branches and 32 service centres and dedicated call centres.

- **Moderate scale of operations and healthy profitability**

SM group's scale of operation is moderate as reflected in the operating revenue of Rs.110.62 crore in FY2018. The addition of manufacturing and assembling facility by way of SMPL has helped the group to grow from Rs.69.47 crore in FY2016 to Rs.110.62 crore in FY2018. The profitability improved from 3.62 percent in FY2016 to 9.58 percent in FY2018. However, the PAT margins remained subdued on account of significant interest costs and tax incidence. The PAT margins stood negative at -0.26 percent in FY2018 as against -0.64 percent in the previous year. Going forward, Acuité expects the profitability metrics to improve on account of better capacity utilisation in SMPL.

Weaknesses

- **Weak financial risk profile**

SM group's financial risk profile is marked by modest net worth, high gearing and moderate debt protection metrics. Net worth improved to Rs.17.37 crore as on March 31, 2018 as against Rs.3.25 crore as on March 31, 2017 on account of capital infusion of Rs.14.40 crore in FY 2017-2018. The gearing stood at 3.40 times as on March 31, 2018 as against 21.81 times as on March 31, 2017. The total debt of Rs.59.13 crore consist of long term borrowings of Rs.11.75 crore, working capital borrowings of Rs.46.02 crore and unsecured loans from promoters of Rs.1.36 crore. Debt protection metrics are moderate marked by interest coverage ratio (ICR) of 1.41 times FY2018 as against 1.44 times FY2017 and debt service

coverage ratio (DSCR) of 1.02 times in FY2018 as against 1.05 times in FY2017. NCA/ TD stood at 0.05 times for FY2018 as against 0.02 times for FY2017.

• Working capital intensive nature of operations

SM group's working capital operations are intensive in nature as reflected by gross current assets (GCA) of 261 days as on March 31, 2018 as against 347 days in the previous year. The GCA days are dominated by other current assets of Rs.38.65 crore towards advances to suppliers. Going forward, group's ability to improve its working capital operations will remain a key rating monitorable.

Liquidity Profile

SM group has stretched liquidity. The group generated cash accruals of Rs.1.42-2.39 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.1.46-2.19 crore over the same period. The cash accruals of the company are estimated to remain comfortable to meet its repayment obligations during 2019-21. The cash credit limit in the company remains fully utilised during the last 6 months period ended February 2019. The company maintains unencumbered cash and bank balances of Rs.0.50 crore as on March 31, 2018. The current ratio of the company stands modest at 1.09 times as on March 31, 2018.

Outlook: Stable

Acuité believes that SM group will maintain 'Stable' outlook over the medium term from its promoter's long standing experience in the industry. The outlook may be revised to 'Positive' if the group achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Group

SMPL is a part of SM Group that consists of SMPL and SAPL. The group is promoted by Mr. Sudalaiyandi Murugan and family. SM Group is engaged in manufacturing, sale, and servicing of marine engine, marine gear boxes and other ancillary parts with presence in 11 coastal states of India.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	110.62	86.86	69.47
EBITDA	Rs. Cr.	10.59	8.25	2.51
PAT	Rs. Cr.	-0.29	-0.56	0.32
EBITDA Margin	(%)	9.58	9.50	3.62
PAT Margin	(%)	-0.26	-0.64	0.46
ROCE	(%)	10.52	8.45	4.32
Total Debt/Tangible Net Worth	Times	3.40	21.81	16.19
PBDIT/Interest	Times	1.41	1.44	2.83
Total Debt/PBDIT	Times	5.58	8.60	24.58
Gross Current Assets (Days)	Days	261	347	322

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies- <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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