

Press Release

SM Mukki Marine Engine Gear Boxes Private Limited

September 24, 2019



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 38.00 Cr. (Enhanced from Rs 10.00 Cr)
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs. 38.00 crore bank facilities of SM Mukki Marine Engine Gear Boxes Private Limited (SMPL). The outlook is '**Stable**'

The rating upgrade reflects improvement in revenue profile, with the group registering healthy year-on-year growth of 18.55 per cent in FY2019 as compared to previous year. Healthy growth in topline coupled with modest profitability has resulted improvement in capital structure and debt protection metrics. The rating continues to reflect long-standing presence of the group in marine engine industry. The rating strengths are partially offset by working capital intensive nature of operations.

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

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.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of SM Marains Advances Gearboxes 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

- **Established track record and experienced management**

The promoters have vast experience in trading and servicing of marine engine and gearbox by virtue of their association with SM Engineering Works (1962) and SM Marians 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 states. The group has a wide presence across the coastal line with 29 branches and 32 service centres and dedicated call centres.

- **Healthy growth in revenue coupled with improvement in profitability**

SM group registered healthy growth in the operating revenue marked by compounded annual growth rate of 17.22 per cent in the last four years ending FY2019. 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.131.14 crore in FY2019 (Provisional). The profitability improved from 3.62 per cent in FY2016 to 9.35 per cent in FY2019 (Provisional). Further, the group posted profits with PAT margins improving from negative of 0.26 per cent in FY2018 to 1.63 per cent in FY2019 (Provisional). The same has resulted in marginal improvement in debt to EBITDA from 5.58 per cent in FY2018 to 5.06 per cent in FY2019 (Provisional). The same stood at 8.60 per cent in FY2017.

Going forward, Acuité expects the profitability metrics to improve on account of better capacity utilisation in SMPL, thereby resulting in improvement in capital structure.

Weaknesses

- **Moderate 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 from Rs.17.37 crore as on March 31, 2018 as against Rs.19.51 crore as on March 31, 2019 (Prov.) on account of modest accretion of profits. The gearing marginally improved from 3.40 times as on March 31, 2018 to 3.20 per cent in as on March 31, 2019(Provisional); the same stood at 21.81 times as on March 31, 2017. The total debt of Rs.62.44 crore consist of long term borrowings of Rs.9.66 crore, working capital borrowings of Rs.52.16 crore and unsecured loans from promoters of Rs.0.62 crore. Debt protection metrics are moderate marked by interest coverage ratio (ICR) of 1.78 times FY2019 (Provisional) as against 1.41 times FY2018 and debt service coverage ratio (DSCR) of 1.31 times in FY2019 (Provisional) as against 1.02 times in FY2018. NCA/ TD stood at 0.08 times for FY2019 (Provisional) as against 0.05 times for FY2018.

- **Working capital intensive nature of operations**

SM Group's operations are working capital intensive in nature as reflected by gross current assets (GCA) of 218 days as on March 31, 2019(Provisional) as against 261 days in the previous year. The GCA days are dominated by other current assets of Rs.12.30 crore towards advances to suppliers. The inventory days stood at 73 days as on March 31, 2019 (Provisional) as against 82 days in as on March 31, 2018. The group imports engines from China and maintains two-month inventory as a policy. The debtor's day stood at 83 days as on March 31, 2019 (P) as against 55 days in the previous year. Going forward, the group's ability to improve its working capital operations will remain a key rating monitorable.

Liquidity Profile:

SMPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.99 crore during FY2018-19 (Provisional) against maturing debt obligation of Rs 2.20 crore in the same period. The cash credit limit in the company remains utilised at around '99 per cent during the last 6-month period ended August, 2019. The company maintains unencumbered cash and bank balances of Rs.0.54 crore as on March 31, 2019 (Provisional). The current ratio of the company stood at 1.12 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual sufficient and absence of long term debt obligation.

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 Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	131.14	110.62	86.86
EBITDA	Rs. Cr.	12.27	10.59	8.25
PAT	Rs. Cr.	2.14	-0.29	-0.56
EBITDA Margin	(%)	9.35	9.58	9.50
PAT Margin	(%)	1.63	-0.26	-0.64
ROCE	(%)	11.99	10.52	14.06
Total Debt/Tangible Net Worth	Times	3.20	3.40	21.81
PBDIT/Interest	Times	1.78	1.41	1.44
Total Debt/PBDIT	Times	5.06	5.58	8.60
Gross Current Assets (Days)	Days	218	261	347

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>
- 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Apr-2019	Cash Credit	Long Term	10.00	ACUITE BB- / Stable (Assigned)

*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	20.00 (Enhanced from Rs 10.00 Crore)	ACUITE BB /Stable (Upgraded)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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