

Press Release

SM Mukki Marine Engine Gear boxes Private Limited

April 26, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 38.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB**' (**read as ACUITE Double B**) on the bank facilities of Rs. 38.00 crores of SM Mukki Marine Engine Gear boxes Private Limited (SMPL). The outlook is '**Stable**'.

About the company

SMPL is based out of Nagercoil, Tamil Nadu and was incorporated in the year 2016. The company is engaged in assembling and manufacturing of marine gear boxes, marine engine and ancillary parts. SMPL is promoted by Mr. Sudalaiyandi Murugan and family. The company has its manufacturing facility located in Nagercoil with an installed capacity of 7,200 units per annum as on March 31, 2021.

About the Group

SMPL is a part of SM Group that consists of SM Mukki Marine Engine Gearboxes Private Limited (SMPL) and SM Marains Advances Gearboxes India Private Limited (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 sales 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 is well supported by second line of management.

The operating income of the group stood at Rs. 158.93 crores in FY2020 as against Rs. 131.62 crores in FY2019, a growth of 20.75% y-o-y. The revenues are growing at CAGR of 23.00 percent since 2016. The group has registered revenue of Rs. 99.61 for FY2021. The decline in revenue was due to pandemic and nationwide lockdown. The operating margins also stood declined at 7.39 percent in FY2020 as against 8.07 percent in FY2019. The decline is due to increase in raw material cost which stood at 83.00 percent in FY2020 as against 79.00 percent in FY2019. The PAT margins stood declined at 0.41 percent in FY2020 as against 0.78 percent in FY2019. However, group has order book of worth Rs. 48.31 crores which is to be executed in next 3 to 4 months, providing revenue visibility over near term. Acuité believes that group will continue to benefit over the near to medium term on account of its experienced management and long-standing relationship with its customers and suppliers.

- **Geographically well diversified**

The group has presence in over 11 coastal states in India and manufacturing unit located at Nagercoil, Tamil Nadu. Also, S M group has wide presence across India with 29 branches, 32 service centres and dedicated call centres. The wide spread geographical ensures recurring orders from existing customers and better service to strengthen long standing relationships. Further, group has tie-ups with well-known suppliers like Sinotruk Limited and Hangzhou Advance Gearbox Group Co. ensuring regular flow of raw materials.

Weaknesses

- **Moderate financial risk profile**

SM group's moderate financial risk profile is marked by modest net worth, high gearing and average debt protection metrics. The net worth of the group stood at Rs. 22.82 crore as on March 31, 2020 as against Rs.19.01 crore as on March 31, 2019 on account of modest accretion of profits. The net worth includes unsecured loans from promoters of Rs.3.82 crore as on March 31, 2020 and Rs.0.62 crore as on March 31, 2019. The gearing marginally improved from 3.25 times as on March 31, 2019 to 2.80 per cent in as on March 31, 2020. However, same is likely to deteriorate further in current year due to addition of Covid loans of Rs.11.89 crores which was availed under emergency credit line as per RBI guidelines. The total debt of Rs.63.97 crore consist of long term borrowings of Rs.16.45 crore and the working capital borrowings of Rs.47.52 crore. Debt protection metrics stood moderate marked by interest coverage ratio (ICR) of 1.57 times as on March 31, 2020 as against 1.56 times as on March 31, 2019. The debt service coverage ratio (DSCR) stood low at 1.13 times in FY2020 as against 1.16 times in FY2019. NCA/ TD stood at 0.05 times for FY2020 as against 0.06 times for FY2019.

- **Susceptibility to Impact of pandemic and economic slowdown**

The marine and shipping sector has been adversely affected by the COVID-19 pandemic and nationwide lockdown. Most of the manufacturing companies have partially shut their manufacturing plants during first two quarters of FY2021, which has severely impacted their operating performance. The gearbox and engine manufacturing companies in shipping industry is likely to see de-growth of 35 to 40 percent in FY2021. Decrease in global as well as domestic demand for marine gearbox and engines, unavailability of labor and timely logistics services has hampered the imports. Further, many suppliers had halted their operations owing to lockdowns imposed by various countries to curtail the pandemic and shipment were delayed resulting in higher cost as well as delay in production. The same is witnessed by players like SM group in FY2021, resulting in lower than expected performance for the current year as compared to historical years.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Higher than expected debt funding resulting in deterioration in overall financial risk profile

Liquidity Position: Adequate

The group has adequate liquidity marked by modest net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.39 to Rs.3.64 crores during FY2018-20 against maturing debt obligation of Rs 2.20 to Rs.3.91 crore in the same period. The net cash accruals are expected to be in range of Rs.3.50 crores to Rs.6.00 crores, against repayment obligation of Rs.3.90 to Rs.5.80 crores for FY2021-23. The incremental working capital requirement and repayment obligations are served by unsecured loans from promoters. The cash credit limit of the group remains utilised at around 90 per cent during the last six month period ended March 2021. The group maintained unencumbered cash and bank balances of Rs.1.39 crore as on March 31, 2020. The current ratio of the group stood at 1.31 times as on March 31, 2020 as against xx times as on March 31, 2019.

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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	158.93	131.62
PAT	Rs. Cr.	0.65	1.03
PAT Margin	(%)	0.41	0.78
Total Debt/Tangible Net Worth	Times	2.80	3.25
PBDIT/Interest	Times	1.57	1.56

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities -<https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Dec-2020	Cash Credit	Long Term	20.00	ACUITE BB (Indicative)
	Short Term Loan	Long Term	10.00	ACUITE BB (Indicative)
	Term Loan	Long Term	6.50	ACUITE BB (Indicative)
	Proposed Bank Facility	Long Term	1.50	ACUITE BB (Indicative)
24-Sep-2019	Cash Credit	Long Term	20.00	ACUITE BB/Stable (Upgraded)
	Short Term Loan	Long Term	10.00	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	6.50	ACUITE BB/Stable (Assigned)
	Proposed Bank Facility	Long Term	1.50	ACUITE BB/Stable (Assigned)
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	ACUITE BB/Stable (Reaffirmed)
Short Term Loan	03-10-2019	Not Available	31-08-2023	8.07	ACUITE BB/Stable (Reaffirmed)
Term Loan	22-08-2015	Not Available	31-07-2023	5.85	ACUITE BB/Stable (Reaffirmed)
WCTL (Covid Loan)	16-09-2020	Not Applicable	31-08-2024	4.08	ACUITE BB/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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