



Press Release
SM Mukki Marine Engine Gear Boxes Private Limited
September 06, 2023
Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.50	ACUITE BB Stable Upgraded	-
Bank Loan Ratings	7.00	-	ACUITE A4+ Assigned
Bank Loan Ratings	14.50	-	ACUITE A4+ Upgraded
Total Outstanding Quantum (Rs. Cr)	45.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating of '**ACUITE BB**' (read as **ACUITE Double B**) from **Acuite BB- (Read as Acuite Double B Minus)** on the Rs. 23.50 Cr. long term bank facilities and the short-term rating of '**ACUITE A4+** (read as **Acuite A four plus**) on the Rs. 14.50 Cr. short term bank facilities of SM Mukki Marine Engine Gear boxes Private Limited (SMPL).

Further, Acuite has assigned the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 7.00 Cr. bank facilities of SMPL.

The outlook is '**Stable**'.

Rationale for rating

The rating reflects SMPL's long track record of operations extensive experience of the management and its well diversified geographical presence. The rating further considers the improved revenue profile during FY2023. The consolidated revenues stood at Rs. 196.12 Cr. in FY2023 against Rs. 118.64 Cr in FY2022. Further, rating takes into account improved gearing driven by timely USL infusion by the promoters. However, rating is constrained by modest coverage indicators, stretched liquidity profile and highly utilized working capital limits.

About 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 2,400 units per annum as on March 31, 2023. Present directors of the company are Mr. Murugan Baby Chandra, Mr. Murugan Baghavathi, Mr. Murugan Gopinathan, and Mr. Sudalaiyandi. Murugan.

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 (SMAG). 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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated business and financial risk profiles of SM Marains Advances Gearboxes India Private Limited (SMAG) 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.

Key Rating Drivers

Strengths

Established track record, experienced management, and well diversified presence.

The promoters have vast experience in trading and servicing of marine engine and gearbox by virtue of their association with SM Engineering Works which was incorporated in 1962 and subsequently SM Marians Advance Gear Boxes India Private Limited (SMAG) in 2006. Further, SMPL was formed in 2016. The group is an authorised dealer of Hangzhou Advance Gearbox Group Co (China) and Sinotruk Limited (China) in India. Also, SM Group has partnered with one of the leading Marine Engine manufacturer M/s Mitsubishi Heavy Industries, to sell their Premium marine engines for heavy duty commercial marine applications in Indian Region. This would involve trading of Mitsubishi machinery in the Indian market. Further, 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 widespread geographical presence ensures recurring orders from existing customers and better service to strengthen long standing relationships.

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.

Improved earnings profile

SM group has recorded improvement in its revenues during FY2023 marked by consolidated revenues at Rs. 196 Cr. against 118 Cr. during FY2022. The improvement is majorly contributed by its other company SMAG which is purely into trading segment. The manufacturing and assembling of gear box engines are done under SMPL. SMPL has an installed HP models capacity between 140-560 HP with around 2400 units with per annum. The capacity has remained utilized at around 35% during FY2023 against 21% in FY2022. Further, the operating profitability although deteriorated at around 6.10% in FY2023 against 7.75% in FY2022. has remained stable at around 7% during the last three years. The absolute EBITDA stood at Rs. 11.95 Cr. in FY2023 against Rs. 9.19 Cr. in FY2022. Further, PAT margins improved to 1.34% in FY2023 against 0.13% in FY2022. Going forward, company's ability to make optimum utilization of installed capacity thereby also improving its margins will remain key monitorable.

Weaknesses

Average financial risk profile

SM group's average financial risk profile is marked by moderate gearing and average debt protection metrics. The net worth of the group stood at Rs. 35.02 Cr as on March 31, 2023 as against Rs.22.20 Cr. as on March 31, 2022. These include quasi equity to the tune of Rs. 14.51 Cr. in the form of unsecured lending (USL) infused by promoters. The gearing improved to 1.80 times as on March 31, 2023 from 3.01 times as on March 31, 2022. However, the same is likely to increase going forward as the group is in plans for enhancing working capital limits. The total debt of Rs.63.20 Cr. consists of long-term borrowings of Rs.18.44 Cr. and the working capital borrowings of Rs.44.76 Cr. Debt protection metrics stood average marked by interest coverage ratio (ICR) and DSCR of 1.73 times and 0.98 times respectively during FY2023. NCA/ TD stood at 0.08 times for FY2023. The current obligations of the long-term loans stood at around 5.32 Cr. against net cash accruals of Rs. 5.07 Cr. The repayments during FY2023 are met through USL infused by promoters and monthly collections from debtors. Further, the immediate obligations for FY2024 are expected at Rs. 7.38 Cr. Timely repayments of the same

will remain key monitorable for SMPL.

Intensive working capital cycle.

The group's working capital cycle is intensive marked by high GCA days. The GCA although improved but stood high at 210 days in FY2023 against 292 days in FY2022. The GCA are majorly dominated by inventory days of 110 days. Being into the business of trading and assembling of gear boxes, it needs to stock ancillary and spares for the same. Further, the debtor days have improved but still stood high at 86 days in FY2023 against 130 days in FY2022. High debtor days are caused by extending longer credit period as per the trend of the industry. This makes company to rely more on external working capital limits marked by high utilization of over 97% of the working capital limits. Timely collections from debtors will benefit the company over the medium term.

Rating Sensitivities

- Timely servicing of debts without any delays.
- Improvement in scale of operations thereby maintaining profit margins.
- Deterioration in the working capital cycle leading to further stress on the liquidity position.

All Covenants

None.

Liquidity Position Stretched

The group has stretched liquidity marked by lower cushion between the net cash accruals and the maturing debt obligations. The company generated cash accruals of Rs.5.07 Cr. in FY2023 against obligations of around Rs.5.32 Cr. The monthly obligations have been met through timely USL infusions by promoters and monthly collections from debtors. Further, the expected maturities during the current year are around Rs. 7.32 Cr. and the NCAs expected during the same period is around 7.67 Cr. Timely servicing of the obligations without any delays will remain critical towards the rating. Further, the working limit of the group remained utilised at over 97 per cent during the last six-month period ended July 2023. The group maintained unencumbered cash and bank balances of Rs.0.15 Cr. as on March 31, 2023.

Outlook:

Acuité believes that SM group will maintain 'Stable' outlook over the medium term basis of its promoter's longstanding experience in the industry. The outlook may be revised to 'Positive' if the group achieves more than envisaged sales thereby maintaining profitability, while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company financial risk profile and liquidity deteriorates further owing to higher-than-expected increase in debt-funded working capital requirement.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	196.12	118.64
PAT	Rs. Cr.	2.62	0.15
PAT Margin	(%)	1.34	0.13
Total Debt/Tangible Net Worth	Times	1.80	3.01
PBDIT/Interest	Times	1.73	1.38

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

Not Applicable.

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Jul 2022	Short Term Loan	Long Term	8.07	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	20.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Working Capital Term Loan	Long Term	4.08	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	5.85	ACUITE BB- (Downgraded and Issuer not co-operating*)
26 Apr 2021	Cash Credit	Long Term	20.00	ACUITE BB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.08	ACUITE BB Stable (Reaffirmed)
	Short Term Loan	Long Term	8.07	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	5.85	ACUITE BB Stable (Reaffirmed)
04 Dec 2020	Term Loan	Long Term	6.50	ACUITE BB (Issuer not co-operating*)
	Short Term Loan	Long Term	10.00	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	20.00	ACUITE BB (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	1.50	ACUITE BB (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BB Stable Upgraded (from ACUITE BB-)
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.50	ACUITE A4+ Upgraded
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A4+ Assigned
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.50	ACUITE BB Stable Upgraded (from ACUITE BB-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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