



Press Release
SM Mukki Marine Engine Gear Boxes Private Limited
November 01, 2023

Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.50	ACUITE BB+ Stable Upgraded	-
Bank Loan Ratings	21.50	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	45.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating at '**ACUITE BB+**' (read as **ACUITE Double B plus**) from **Acuite BB (Read as Acuite Double B)** on the Rs. 23.50 Cr. long term bank facilities and reaffirmed the short-term rating of '**ACUITE A4+ (read as Acuite A four plus)**' on the Rs. 21.50 Cr. short term bank facilities of SM Mukki Marine Engine Gear boxes Private Limited (SMPL).

The outlook is '**Stable**'.

Rationale for Upgrade

The rating reflects SM group's long track record of operations, extensive experience of the management and its well diversified geographical presence. It further considers improved operating performance of the group during FY2023 & H1FY2024 as reflected in its improved revenues and profitability. The consolidated revenues stood at Rs. 196.12 Cr. in FY2023 against Rs. 118.64 Cr in FY2022 and the same have further improved during H1FY2024 at Rs. 145.79 Cr. Furthermore, the EBITDA margins have also shown significant improvement during H1FY2024 which stood at around 8.37% against 6.09% in FY2023 and 7.75% in FY2022. The upgrade is also driven by the sequential improvement in SM group's profitability indicators and working capital cycle reflected in ROCE of around 10.55% in FY2023 against 7.40% in FY2022 and improved GCA days of 210 during FY2023 against 292 in FY2022. The rating additionally takes into account improved gearing of SMPL during FY2023 driven by timely infusion of funds on the form of USL by the promoters. However, the rating is constrained by SMPL's moderate coverage and liquidity indicators 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. Sudalaiyandi Murugan, Mr. P Murugan, Mrs M Baby Chandra, Mr. M Gopinathan and Mrs M Baghavathi.

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 Boxs 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 Operating performance

SM group has recorded significant growth in its operating performance during FY2023 & H1FY2023 marked by improved consolidated revenues at Rs. 196 Cr. in FY2023 against 118 Cr. during FY2022. The revenues have further improved to Rs. 146 Cr during H1FY2024. The improvement is majorly contributed by its another company SMAG which is purely into trading segment. The manufacturing and assembling of gear box engines is 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 EBITDA margins have also improved at around 8.37% during H1FY2024 against 6.10% in FY2023. This has resulted in increased PAT margins of 2.78% in H1FY2024 against 1.34% in FY2023 and 0.13% in FY2022. Furthermore, company has been recording a sequential improvement in its ROCE which stood at 10.55% in FY2023 against 7.40% in FY2022 and 7.08% in FY2021.

Going forward, company's ability to make optimum utilization of installed capacity thereby also maintaining 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. 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. Going ahead, the coverage indicators are expected to improve given the improved operating performance of the group during H1FY2024. However, the immediate obligations for FY2024 are expected at Rs. 7.38 Cr. and 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 group over the medium term.

Rating Sensitivities

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

All Covenants

Not Available.

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. while the NCA during H1FY2024 stood at Rs. 6.56 Cr. marking an improved DSCR of 1.02 times against 0.98 times in FY2023. The NCA for FY2024 are expected to remain at ~ Rs10 Cr. However, timely servicing of the obligations without any delays will remain critical towards the rating. Further, the working limits of the group remained utilised at over 97 per cent during the last six-month period ended July 2023. However, promoters have been timely infusing funds and during FY2023 have infused around Rs. 10 Cr.

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 group's 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
06 Sep 2023	Letter of Credit	Short Term	14.50	ACUITE A4+ Upgraded
	Cash Credit	Long Term	20.00	ACUITE BB Stable (Upgraded from ACUITE BB-)
	Letter of Credit	Short Term	7.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	3.50	ACUITE BB Stable (Upgraded from ACUITE BB-)
19 Jul 2022	Term Loan	Long Term	5.85	ACUITE BB- (Downgraded and Issuer not co-operating*)
	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*)
26 Apr 2021	Term Loan	Long Term	5.85	ACUITE BB Stable (Reaffirmed)
	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)
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	21.50	ACUITE A4+ Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.50	ACUITE BB+ Stable Upgraded (from ACUITE BB)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Jaitashree Hukerikar Analyst-Rating Operations Tel: 022-49294065 jaitashree.hukerikar@acuite.in	

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.