



Press Release
SM Mukki Marine Engine Gear Boxes Private Limited
August 23, 2024
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	23.50	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	9.50	-	ACUITE A4+ Assigned
Bank Loan Ratings	21.50	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	56.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE BB+**' (read as **ACUITE Double B plus**) and the short-term rating of '**ACUITE A4+**' (Read as **ACUITE A Four plus**) on the Rs. 45.00 Cr. bank facilities of SM Mukki Marine Engine Gear boxes Private Limited (SMPL). The outlook is '**Stable**'.

Acuite has assigned the long-term rating at '**ACUITE BB+**' (read as **ACUITE Double B plus**) and the short-term rating of '**ACUITE A4+**' (Read as **ACUITE A Four plus**) on the Rs. 11.00 Cr. bank facilities of SM Mukki Marine Engine Gear boxes Private Limited (SMPL). The outlook is '**Stable**'.

Rationale for Rating

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 FY2024 as reflected in its improved revenues and profitability. The consolidated revenues stood at Rs. 236.45 Cr. in FY2024(Prov) against Rs.

196.12 Cr. in FY2023. The revenues of the group was around Rs. 102 crore as on 30th July, 2024. However, the EBITDA margins have declined and stood at around 5.80% in FY2024(Prov) against 6.09% in FY2023 and 7.75% in FY2022 due to increase in the competition due to which rising raw material prices could not be transferred to the customers. The group has working capital intensive nature of operations as reflected by GCA days of 216 during FY2024(Prov) against 228 in FY2023. The rating additionally takes into account improved gearing of SMPL during FY2024(Prov) driven by timely infusion of funds in the form of USL by the promoters (being treated as quasi equity based on management's undertaking) and repayment of debts. However, the rating is constrained by SMPL's moderate debt coverage ratios and tightly matched net cash accruals against debt obligations and highly utilized working capital limits.

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 2,400 units per annum as on March 31, 2024. 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 Gear boxes 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.

Unsupported Rating

Not Applicable

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 Marains 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 Operating performance

SM group has recorded significant growth in its operating performance during FY2024, marked by improved consolidated revenues at Rs. 236.45 Cr. in FY2024(Prov) against Rs.196.12 Cr. during FY2023. The revenues of the group was around Rs. 102 crore as on 30th July, 2024. The improvement is majorly contributed by its another company SMAL 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. Further, the EBITDA margins have declined to 5.80% during FY2024(Prov) against 6.09% in FY2023 due to increase in the competition due to which rising raw material prices could not be transferred to the customers. The PAT margins have remained at 1.54% in FY2024(Prov) against 1.34% in FY2023 and 0.13% in FY2022. Furthermore, company has been recording a sequential improvement in its ROCE which stood at 12.29% in FY2024(Prov) against 10.56% in FY2023 and 7.40% in FY2022. 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. 43.03 Cr. as on March 31, 2024(Prov) as against Rs.34.91 Cr. as on March 31, 2023. These include quasi equity to the tune of Rs. 10.51 Cr. in the form of unsecured lending (USL) infused by promoters. The gearing stood at 1.31 times as on March 31, 2024(Prov) as compared to 1.81 times as on March 31, 2023. 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.56.48 Cr. in FY 2024 (Prov.) consists of long-term borrowings of Rs.3.77 Cr. and the working capital borrowings of Rs.44.76 Cr. and CPLTD of Rs. 4.75 Cr. Debt protection metrics stood average marked by interest coverage ratio (ICR) and DSCR of 1.88 times and 0.80 times respectively during FY2024(Prov). The current obligations of the long-term loans stood at around Rs. 9.57 Cr. against net cash accruals of Rs. 6.10 Cr. Acuite believes that the any improvement in financial risk profile will remain a key monitorable.

Intensive working capital cycle

The group's working capital cycle is intensive marked by high GCA days. The GCA improved but stood high at 216 days in FY2024(Prov) against 228 days in FY2022. The GCA are majorly dominated by inventory days of 125 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 had remained stable but still stood high at 89 days in FY2024(Prov) against 86 days in FY2023. High debtor days are caused by extending longer credit period as per the trend of the industry. This increase the company's reliability on external working capital limits marked by high utilization of over ~98% of the working capital limits. Timely collections from debtors will benefit the group over the medium term.

Rating Sensitivities

- Improvement in scale of operations and improving its profit margins
- Timely servicing of debts without any delays
- Improvement in debt protection metrics
- Any deterioration in the working capital cycle leading to stress on the liquidity position.

Liquidity Position Stretched

The group has stretched liquidity marked by insufficient cushion between the net cash accruals and the maturing debt obligations. The company generated cash accruals of Rs. 6.10 Cr. in FY2024 against obligations of around Rs.9.57 Cr. the shortfall in debt servicing is being met by infusing unsecured funds or squeezing the working capital timely. The GCA days of the company stood at 216 days in FY2024(Prov) as against 228 days in FY2023. Further, the working limits of the group remained utilised at over ~98 per cent during the last 6 month period ended July 2024. Also, the current ratio of the group stood at 1.25 times as on March 31, 2024 (Prov.). Acuite believes that the liquidity of the Company will be marked by slow but steady accruals, debt repayments, the shortfall in which would have to be serviced by timely infusion of funds in business.

Outlook: Stable

Acuite 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 and maintaining profitability, while efficiently improving its working capital cycle and debt protection metrics. Conversely, the outlook may be revised to 'Negative' if the group's net cash accruals continue to decline and weakens the debt protection metrics and liquidity deteriorates further owing to higher- than expected increase in debt-funded working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	236.45	196.12
PAT	Rs. Cr.	3.65	2.63
PAT Margin	(%)	1.54	1.34
Total Debt/Tangible Net Worth	Times	1.31	1.81
PBDIT/Interest	Times	1.88	1.74

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 Entities: <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
01 Nov 2023	Letter of Credit	Short Term	21.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	3.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
06 Sep 2023	Term Loan	Long Term	3.50	ACUITE BB Stable (Upgraded from ACUITE BB-)
	Cash Credit	Long Term	20.00	ACUITE BB Stable (Upgraded from ACUITE BB-)
	Letter of Credit	Short Term	7.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	14.50	ACUITE A4+ Upgraded
19 Jul 2022	Cash Credit	Long Term	20.00	ACUITE BB- (Downgraded & Issuer not co-operating* from ACUITE BB Stable)
	Short-term Loan	Long Term	8.07	ACUITE BB- (Downgraded & Issuer not co-operating* from ACUITE BB Stable)
	Term Loan	Long Term	5.85	ACUITE BB- (Downgraded & Issuer not co-operating* from ACUITE BB Stable)
	Working Capital Term Loan	Long Term	4.08	ACUITE BB- (Downgraded & Issuer not co-operating* from ACUITE BB Stable)
26 Apr 2021	Cash Credit	Long Term	20.00	ACUITE BB Stable (Reaffirmed)
	Proposed Long Term 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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	23.50	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.50	ACUITE BB+ Stable Assigned
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	21.50	ACUITE A4+ Reaffirmed
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.50	ACUITE A4+ Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company Name
1.	SM Mukki Marine Engine Gear Boxs Private Limited
2.	SM Marains Advances Gearboxes India Private Limited

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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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