

March 12, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	5.00	SMERA BB-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB-**' (**read as SMERA double B minus**) to the Rs.5.00 crore cash credit facility of Shree Momai Engineering Works (SMEW). The outlook is '**Stable**'.

The rating is constrained by the firm's small-scale operations in an intensely competitive segment of the brass industry. The rating is also constrained by the firm's exposure to customer concentration risk. The rating notes that the firm's profit margins are susceptible to volatility in raw material prices and fluctuations in forex rates. The rating factors in risks related to the firm's working capital-intensive operations and weak bargaining power against suppliers. However, the rating derives comfort from the firm's experienced management and established relations with major customers. The rating also draws comfort from the firm's moderate financial risk profile.

SMEW has small-scale operations with total operating income of Rs.15.62 crore in FY2013-14 (refers to financial year, April 01 to March 31). The firm is exposed to customer concentration risk as sales to a single client accounts for ~80 per cent of the total revenues. SMEW's operating profit margin has declined from 12.64 per cent in FY2010-11 to 11.45 per cent in FY2013-14 on account of adverse fluctuations in raw material prices and forex rates. The firm's operations are highly working capital-intensive with inventory holding period of 176 days in FY2013-14 and creditor days stand at 12 for FY 2013-14 signifying weak bargaining power against suppliers.

SMEW, established in 1974, is a Jamnagar-based partnership firm engaged in manufacturing of brass extrusion rods and brass based products. SMEW benefits from its experienced management. The partners of the firm have around three decades of experience in the brass industry. The firm also benefits from its long-standing relations with customers. SMEW's moderate financial risk profile is marked by debt-to-capital ratio of 1.89 times as on March 31, 2014. The firm's total debt of Rs. 8.14 crore (as on March 31, 2014) includes interest-bearing unsecured loans of Rs.4.68 crore from relatives.

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### Outlook: Stable

SMERA believes the outlook on SMEW's rated facility will remain stable over the medium term. The outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenue. The outlook may be revised to 'Positive' in case the firm registers healthy growth in scale of operations while maintaining its moderate financial risk profile.

### About the firm

SMEW was established as a proprietorship concern in 1974. The firm was initially engaged in casting and moulding of iron products. Later in 1988, SMEW was converted into a partnership entity. The firm is currently engaged in manufacturing of brass extrusion rods and brass based products such as weight sets and water purifier pipes. SMEW has a manufacturing unit in Jamnagar, with total installed capacity of 2,500 metric tonnes per annum (MTPA).

For FY2013–14, SMEW reported net profit of Rs.0.42 crore on operating income of Rs.15.62 crore, as compared with net profit of Rs.0.41 crore on operating income of Rs.15.46 crore in FY2012–13. The firm registered revenue of ~Rs.13.38 crore (provisional) for the nine months ended in December 2014. SMEW's net worth stood at Rs. 4.30 crore as on March 31, 2014, as compared with Rs. 3.87 crore a year earlier.

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