

April 15, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	26.50*	SMERA B+/Negative (downgraded from SMERA BBB-/Stable)
Term Loan	16.25	SMERA B+/Negative (downgraded from SMERA BBB-/Stable)
Letter of Credit	24.00	SMERA A4 (downgraded from SMERA A3)
Bank Guarantee	30.34	SMERA A4 (downgraded from SMERA A3)
Proposed long term bank facilities	2.91	SMERA B+/Negative (downgraded from SMERA BBB-/Stable)

*Interchangeable with letter of credit to the extent of Rs.11 cr and packing credit to the extent of Rs.2 cr

SMERA has downgraded the bank loan ratings of Siechem Technologies Pvt. Ltd. (STPL) to '**SMERA B+/SMERA A4**' from '**SMERA BBB-/SMERA A3**'. SMERA has also revised STPL's rating outlook (on the long-term bank facilities) to '**Negative**' from '**Stable**'.

The ratings downgrade and outlook revision reflect deterioration in the company's business and financial risk profiles. STPL's revenues declined by around 26%, to Rs.89.94 cr in FY13 from Rs.121.78 cr in FY12, owing to subdued demand from its various end user industries, like power sector, automotive cable sector, offshore and marine cable sector, instrumentation sector etc. In order to enter new markets and diversify its end user industry base, the company forayed into supplying electric cables to the railway and telecom sector. In the first 6 months of 2013-14, of the Rs.47 cr of turnover achieved by the company, around 67% was from the railway sector, as compared to around 21% in FY13. The company also had Rs.37.1 cr of confirmed order book in November 2013, executable over the next 4-6 months, with a large part of this order book consisting of orders from the telecom sector. The company's revenues if FY14 are expected to see a modest growth over the previous year.

With the company's foray into catering to various sectors like the Railways and telecom sector, the company's business has become working capital intensive in nature, with strain on its liquidity. The company's inventory and debtors have increased to Rs.52.83 cr as on December 31 2013, from around 20.80 cr as on March 31, 2013, leading to higher dependence on bank lines. The company's bank limits have been fully utilised over the past 6 months ended December 2013. The banker has also temporarily reduced STPL's working capital limits by Rs.2 cr in November 2013, to be reinstated after satisfactory sales performance for FY14. With the increase in its working capital requirements, and the temporary reduction in its bank limits, STPL's liquidity is stretched, and the company has been granted an adhoc limit to tide over this liquidity crunch.

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SMERA believes the STPL's liquidity will continue to remain under strain, with the working capital intensive nature of operations, and high reliance on bank debt. The company's ability to manage its working capital cycle will continue to remain a key rating sensitivity factor.

The company also has weak capital structure with gearing 2.1 times as on March 31, 2013. The company's gearing levels are expected to increase going forward, owing to higher reliance on bank finances to fund its increased working capital requirements and its ongoing debt funded capex.

The company has taken up a debt funded capex of Rs.14.50 cr to set-up a second electron beam accelerator. Rs.10.25 cr of the capex is expected to be funded by term debt. The company has already incurred costs of around Rs.10 cr, and the full scale operations from the project is expected to be commence by first quarter of FY15. However the company's revenue growth will be contingent on the demand from its various end user industries.

The company also had weak debt protection metrics with interest coverage at 1.64 times. The company's interest coverage ratio is expected to remain weak going forward, with the additional interest expense for the incremental working capital borrowings and term debt.

Notwithstanding the above mentioned weaknesses, STPL's ratings are continued to be supported by its moderate operating margins, long standing experience of promoters and unique business model. The company has maintained moderate profitability, with operating margins at 13.14% in FY13, up from 10.51% in FY12. The company's operating margins are expected to remain in the same range going forward.

The company also continues to benefit from its experienced management, state of the art R&D facility and one of the few companies to have an operational electron beam accelerators in India, used to increase the physical and chemical characteristics of the electric cable.

Outlook: Negative

SMERA believes that the company's credit risk profile will remain constrained on the back of its increased working capital requirements, and the resultant strain on the company's liquidity. The rating may be downgraded in case the company's working capital requirements continue to remain high, or in case of lower than expected revenues and net cash accruals or larger than expected debt funded capex plans. The outlook however may be revised to positive, in case of improvement in the company's working capital cycle, with increasing headroom in its working capital facilities, timely implementation of its capex plans and better than expected revenues and accruals.

About the company

STPL, incorporated in 2004, is a Chennai-based company involved in manufacturing of specialty wires. STPL has a manufacturing unit in Pondicherry, Tamil Nadu. The company caters to various industries including solar power, naval and marine applications and telecom

equipment. Mr. P. Damodaren, Managing Director of STPL, has over twenty years of experience in the specialty cables industry.

For FY2012-13, STPL reported profit after tax of Rs.2.41 crore on operating income of Rs.90.90 cr as compared with profit after tax of Rs.3.33 crore on operating income of Rs.119.19 cr for FY2011-12. STPL's tangible networth stood at Rs.16.43 cr as on March 31, 2013.

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