SMERA RATINGS LIMITED

Stork Rubber Products Private Limited (SRPPL)

Rating Rationale

November 14, 2013

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit*	**2.00**	**SMERA BB+/Stable (Assigned)**
Term Loan	**5.13**	**SMERA BB+/Stable (Assigned)**
Packing Credit*	**5.00**	**SMERA A4+/ (Assigned)**
FOBP/FOUBP/FABC*	**5.00**	**SMERA A4+/ (Assigned)**
FOBLC*	**5.00**	**SMERA A4+/ (Assigned)**
Letter of Credit	**0.40**	**SMERA A4+/ (Assigned)**
Bank Guarantee	**0.03**	**SMERA A4+/ (Assigned)**

***PC+FOBP/FOUBP/FABC/FOBLC+CC<= Rs. 10.40 crore**

SMERA has assigned a long-term rating of '**SMERA BB+' (read as SMERA double B plus)** and a short-term rating of **'SMERA A4+' (read as SMERA A four plus)** to the Rs.15.96 crore bank facilities of Stork Rubber Products Private Limited (SRPPL). The outlook is **'Stable'**. The ratings are supported by the company's experienced management, long track record of operations, long-standing relationships with reputed customers and moderate financial risk profile. However, the ratings are constrained by the company's exposure to volatility in raw material prices and cyclicality in the automobile industry. The ratings also factor in the risks associated with the company's ongoing and future capital expenditure.

SRPPL has 60 per cent shareholding in Stork Auto Engineering Private Limited (SAEPL) and 100 per cent shareholding in Stork Phobos Electricals Private Limited (SPEPL). The three companies are collectively referred to as the Stork group. SMERA has considered the consolidated financials of the Stork group in assessing the financial risk profile of SRPPL.

SRPPL, incorporated in 1994, is engaged in manufacturing and export of rubber and rubber-to-metal bonded components. SAEPL is engaged in manufacturing of automobile cables and SPEPL is engaged in manufacturing of electrical insulators. SRPPL has long-standing relationships with its customers. The company derives around 84 per cent of its total revenues from exports to Europe, Australia and South Africa. SRPPL caters to various reputed customers including Chrysler LLC (USA), Delphi Lockheed Automotive (United Kingdom), Royal Enfield (India), Rane Limited and QH Talbros Limited (India).

The Stork group mainly caters to the automobile and auto ancillary sector and is thus affected by the slowdown in the automobile industry. The group is also exposed to raw material price volatility.

The group's operating profit margin declined from 14.82 per cent in FY2011–12 to 9.87 per cent in FY2012–13 mainly due to increase in raw material cost.

The Stork group has planned capital expenditure over the next two years for setting up a manufacturing unit in Chennai and undertaking capacity expansion at the Gurgaon plant. The total outlay is estimated at Rs.10.00 crore, which is likely to be funded through term loans of Rs.7.00 crore and internal accruals of Rs.3.00 crore. SMERA believes that the group's overall leverage will deteriorate (after factoring in the aforementioned capex plans) and remain moderately high over the medium term.

The overall leverage of the Stork group stands at 1.40 times as on March 31, 2013. The group's net profit margin declined from 3.60 per cent in FY2011–12 to 0.22 per cent in FY2012–13 on account of losses incurred by SPEPL (due to tender-based business) and decline in operating profits of SRPPL. The group's interest coverage ratio is comfortable at 2.89 times in FY2012–13. SRPPL's average working capital limit utilization is moderate at 89 per cent during January 2013 to August 2013.

Mr. Jagdeep Singh Rangar, Managing Director of SRPPL, has around 36 years of experience in the auto components industry.

Outlook – Stable

SMERA believes the outlook on SRPPL's rated facilities will remain stable over the medium term on account of company's experienced management and long-standing relationships with customers. The outlook maybe revised to 'Positive' if the Stork group registers a sustained growth in revenues with improvement in profit margins. Conversely, the outlook maybe revised to 'Negative' in case of a steep decline in the group's revenues and profit margins or in case of a significant deterioration in SRPPL's capital structure on account of extensive external borrowings.

About the company

SRPPL, incorporated in 1994, is a Gurgaon-based company engaged in manufacturing and export of rubber and rubber-to-metal bonded components. SRPPL is promoted by Mr. Jagdeep Singh Rangar and Mrs. Mandeep Rangar. The company has a manufacturing facility in Gurgaon, Haryana.

The Stork group reported PAT of Rs.0.10 crore on operating income of Rs.45.07 crore in FY2012–13 as compared with PAT of Rs.1.54 crore on operating income of Rs.42.64 crore for FY2011–12. The group's net worth stands at Rs.11.41 crore as on March 31, 2013 as compared with Rs.11.42 crore a year earlier.

On a standalone basis, SRPPL reported PAT of Rs.1.11 crore on operating income of Rs.36.76 crore for FY2012–13 as compared with PAT of Rs.2.06 crore on operating income of Rs.37.02 crore for FY2011–12.

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