



SMERA RATINGS LIMITED

P R Kedarnath Multi Components (PRKMC)

Rating Rationale

January 03, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan 1	0.51	SMERA B/Stable (Assigned)
Term Loan 2	1.50	SMERA B/Stable (Assigned)
Term Loan 3	0.68	SMERA B/Stable (Assigned)
SME Car Loan	0.15	SMERA B/Stable (Assigned)
Cash Credit	0.50	SMERA B/Stable (Assigned)
Bank Guarantee	0.15	SMERA A4 (Assigned)
Derivative/FC/CEL	0.03	SMERA A4 (Assigned)
Proposed long-term facilities	2.55	SMERA B/Stable (Assigned)

SMERA has assigned ratings of '**SMERA B' (read as SMERA B)** to the Rs.5.89 crore long-term bank facilities and '**SMERA A4' (read as SMERA A4)** to the Rs.0.18 crore short-term bank facilities of P R Kedarnath Multi Components (PRKMC). The outlook is '**Stable**'. The ratings are constrained by the firm's exposure to high customer concentration risk. The ratings are also constrained by the firm's, stretched liquidity position proposed debt-funded expansion plans, small scale of operations, low net worth, high dependence on the automobile industry and exposure to intense competition prevalent in the precision components industry. However, the aforementioned weaknesses are partially offset by the firm's experienced management and healthy operating profit margins.

PRKMC, established in 1994, is a Bangalore-based partnership firm engaged in manufacturing of precision components, tools, barrels and shafts. PRKMC is exposed to intense customer concentration risk as the firm derives ~90 per cent of its total revenues from sales to Bosch India Limited. PRKMC has a stretched liquidity position as observed in negative operating cycle of 188 days for FY2012-13 (refers to financial year, April 01 to March 31), the firm's current ratio stood at 0.86 times as on March 31, 2013 as against 1.31 times as on March 31 2012, The firm's leverage stood at 0.81 times as on March 31, 2013, however, PRKMC's coverage indicators are likely to deteriorate as the firm plans to undertake debt-funded capex of Rs.2.43 crore for capacity addition. PRKMC has a small scale of operations with revenues of Rs. 5.20 crore in FY2012-13 The firm's net worth is low at Rs.1.47 crore as on March 31, 2013. PRKMC mainly caters to the automobile industry, which is currently undergoing a slowdown. The firm faces intense competition from several small players in the unorganised sector of the precision components industry.

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PRKMC benefits from its experienced management. Mr. P. A. N. Gupta, Partner of PRKMC, has around 20 years of experience in the precision components industry. The firm has healthy operating margins, which increased from 12.29 per cent in FY2011-12 to 14.16 per cent in FY2012-13.

Rating sensitivity factors

- Diversification of customer base
- Generation of incremental cash accruals from the proposed capacity expansion

Outlook: Stable

SMERA believes PRKMC's outlook will remain stable over the medium term owing to the firm's optimum capacity utilisation, healthy operating profit margins and experienced management. The outlook may be revised to 'Positive' in case the firm maintain its asset turnover ratio and profit margins post capacity expansion. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile on account of larger-than-expected working capital requirements or in case of increase in the firm's leverage.

About the firm

PRKMC, established in 1994, is a partnership firm engaged in manufacturing of precision components, tools, barrels and shafts. PRKMC has a manufacturing unit in Bangalore, Karnataka.

For FY2012-13, PRKMC reported PAT of Rs.0.06 crore on net sales of Rs.5.20 crore, as compared with PAT of Rs.0.11 crore on net sales of Rs.5.91 crore for FY2011-12. The firm's net worth stood at Rs.1.47 crore as on March 31, 2013, as compared with Rs. 1.51 crore a year earlier.

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