

September 02, 2013

Facilities	Amount (Rs. Crores)	Rating
Cash Credit Sub Limit - BD - LC (DP/DA 90 days)	4.25 (1.00)	SMERA C/Assigned
Inland/Foreign Letter of Credit	2.50	SMERA A4/Assigned
Bank Guarantee	0.51	SMERA A4/Assigned

SMERA has assigned a rating of **'SMERA C' (read as SMERA C)** to the Rs.4.25 crores long term facilities and **'SMERA A4' (read as SMERA A Four)** to the Rs.3.01 crores short term facilities of S. Pal Enterprises Private Limited (SPEPL). The ratings are primarily constrained by the company's weak financial risk profile marked by declining revenues and low profitability in a highly competitive and fragmented industry. The ratings are also constrained by the company's working-capital-intensive operations, susceptibility to raw material price fluctuations and weak debt coverage indicators. The ratings factor in the risks associated with SPEPL's corporate guarantee towards its defaulting group entity. However, the ratings are supported by the company's experienced management, long track record of operations and reputed clientele.

SPEPL is engaged in the business of manufacturing wires and cables. The company has a small scale of operations despite a long track record spanning more than 25 years in the same line of business. Moreover, the company's revenues declined sharply from Rs.54.96 crores in FY2009-10 (refers to financial year, April 01 to March 31) to Rs.18.51 crores in FY2011-12. This was mainly on account of lower offtake by the Indian Railways, a major customer accounting for about 90 per cent of SPEPL's total revenues.

SPEPL has extended a corporate guarantee of Rs.57.36 crores towards the bank loans availed by its distressed group entity Sri Ram Cables Private Limited (SRCPL). The value of the corporate guarantee exceeds SPEPL's tangible net worth, which stood at Rs.20.30 crores as on March 31, 2013. SRCPL has been rated as a defaulter entity on account of delays in servicing and repayment of term loan obligations.

SPEPL operates in a highly competitive and fragmented industry marked by the presence of a large number of players. Further, raw material price volatility and limited pricing power pressurize the company's profit margins. SPEPL registered net profit margin of 0.59 per cent in FY2011-12, mainly on the back of non-operating income arising from rentals and profit on sale of assets. The company's coverage indicators are weak at 1.36 times in FY2011-12.

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SPEPL's overall operations are managed by Mr. Satish Garg and Mr. Varun Garg. Mr. Satish Garg, Promoter and Director, has over 25 years of experience in the company's line of business.

About the company

SPEPL was incorporated in 1997 by Mr. Shishpal Garg and Mr. Satish Garg. The company took over the running business of S. Pal Enterprises, a partnership firm established in 1985. SPEPL manufactures low tension polyvinyl chloride power cables, control cables and wires under its registered brand 'Truecab'. The company's products are compliant with ISO 9001:2008 standards and are mainly supplied to the Indian Railways. SPEPL has a 40,000 sq. meters manufacturing facility located in the Chopanki Industrial Area of Bhiwadi, Rajasthan.

In FY2011-12, SPEPL reported total income of Rs.18.51 crores and PAT of Rs.0.11 crores as compared with total income of Rs.33.14 crores and PAT of Rs.0.74 crores in FY2010-11. Further, the company registered total income of Rs.22.58 crores and PAT of Rs.0.52 crores in FY2012-13 (provisional).

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