

March 31, 2015

Facilities	Amount (Rs. Crore)	Ratings
Export Packing Credit/PCFC	72.00#	SMERA A1+ (Reaffirmed)
Letter of Credit/Bank Guarantee	39.50	SMERA A1+ (Reaffirmed)
Cash Credit	13.50*	SMERA A+/Stable (Reaffirmed)

#Includes Cash Credit as sublimit to the extent of Rs.27.30 crore and Overdraft as sublimit to the extent of Rs.2.00 crore

*Includes EPC/PCFC as a sublimit (fully interchangeable)

SMERA has reaffirmed the ratings of '**SMERA A+**' (**read as SMERA single A plus**) and '**SMERA A1+**' (**read as SMERA A one plus**) on the Rs.125.00 crore bank facilities of Sigma Electric Manufacturing Corporation Private Limited (Sigma). The outlook is '**Stable**'. The ratings continue to draw comfort from the company's strong financial risk profile and healthy net cash accruals. The ratings are also supported by the company's established operations, diversified product mix and experienced management. However, the ratings remain constrained by the company's exposure to geographical and customer concentration risks. The ratings note that the company's profit margins are susceptible to fluctuations in foreign exchange rates. The ratings are also constrained by the company's working capital-intensive operations.

Update

Sigma reported revenue of Rs.604.05 crore in FY2013-14 (refers to financial year, April 01 to March 31), as compared with revenue of Rs.578.90 crore in the previous year. The company undertook capex (funded through internal accruals) towards enhancing its installed manufacturing capacity from 26,100 tonnes per annum to 32,835 tonnes per annum. Sigma's capacity utilisation stood at 55 per cent in FY2013-14, as against 67 per cent in the previous year. The company's operating profit margin reduced from 15.62 per cent in FY2012-13 to 14.42 per cent in FY2013-14 on account of increase in power cost and employee expenses. Sigma's net profit margin declined from 7.30 per cent in FY2012-13 to 5.48 per cent in FY2013-14 given the high depreciation charge. The company registered revenue of Rs.540.65 crore during April 2014 to December 2014. Sigma expects to report revenue of ~Rs.700 crore in FY2014-15. The company's profit margins are likely to decline marginally on account of further increase in power cost and employee expenses. Sigma has revised its selling prices w.e.f. December 2014 in order to offset the cost pressure.

Sigma has maintained its robust financial risk profile with low leverage (debt-equity ratio) of 0.09 times as on March 31, 2014. The company does not have any long-term debt on its books. Sigma registered healthy net cash accruals of Rs.72.01 crore in FY2013-14. The company reported strong cash balance of Rs.8.75 crore as on March 31, 2014.

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Sigma's diversified product mix includes electrical boxes, connectors, fittings and other electrical accessories. The company benefits from its experienced management. Sigma's directors have around five decades of collective experience in the electrical industry.

Sigma remains exposed to geographical and customer concentration risks as sales to US-based group entity (viz. Sigma Electric Manufacturing Company) accounts for ~92 per cent of the company's total revenue. Sigma's business remains susceptible to unfavorable changes in trade policies. The company has recently acquired new customers (such as Emersons, Siemens, Endress Hauser and Yokogava) in an attempt to reduce client concentration. Sigma's profit margins are highly susceptible to fluctuations in forex rates in the absence of any hedging mechanism. The company's operations are working capital-intensive with gross current assets of 181 days in FY2013-14.

Outlook: Stable

SMERA believes Sigma will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company expands its geographical presence while maintaining a strong financial risk profile. The outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile, or in case of economic uncertainties in the company's key markets.

About the company

Sigma (formerly known as Semco Electric Private Limited) is a Pune-based company established in 1996 by Mr. Sajjan Kumar Agarwal. Sigma is engaged in manufacturing of electrical wiring and lighting accessories such as electrical boxes, connectors and fittings. The company has two manufacturing units in Pune (Maharashtra) and Jaipur (Rajasthan), with total installed capacity of 32,835 metric tonnes per annum.

Sigma is a wholly owned subsidiary of Sigma Electric Holdings, Mauritius. In FY2007-08, Goldman Sachs Capital Partner Fund (a private equity fund) acquired 80.11 per cent equity stake in Sigma Electric Holdings, Mauritius for a consideration of ~USD 172 million.

For FY2013-14, Sigma reported profit after tax (PAT) of Rs.33.11 crore on revenue of Rs.604.05 crore, as compared with PAT of Rs.42.25 crore on revenue of Rs.578.90 crore in FY2012-13. The company registered revenue of Rs.540.65 crore (provisional) during April 2014 to December 2014. Sigma's net worth stood at Rs.401.33 crore as on March 31, 2014, as compared with Rs.371.51 crore a year earlier.

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