



SMERA RATINGS LIMITED

# Sigma Electric Manufacturing Corporation Private Limited (Sigma)

## Rating Rationale

**May 14, 2016**

Facility	Amount (Rs. Crore)	Ratings
Export Packing Credit/ Packing Credit in Foreign Currency	72.00#	SMERA A1+ (Reaffirmed)
Letter of Credit/Bank Guarantee	39.50	SMERA A1+ (Reaffirmed)
Cash Credit	13.50*	SMERA AA-/Stable (Upgraded from SMERA A+/Stable)

#includes sublimit of Cash credit of Rs.27.30 crore and overdraft limit of Rs 2.00 crore.

\*includes sublimit of EPC/PCFC - fully interchangeable

SMERA has upgraded the long term rating of the abovementioned bank facilities of Sigma Electric Manufacturing Corporation Private Limited (Sigma) to **'SMERA AA-' (read as SMERA double A minus)** from **'SMERA A+' (read as SMERA A plus)** and reaffirmed the short term rating at **'SMERA A1+' (read as SMERA A one plus)**. The outlook is **'Stable'**.

The rating upgrade reflects the company's healthy revenue growth and improvement in operating margins in FY2014-15. The ratings continue to be supported by the long track record of operations, strong financial risk profile and net cash accruals. The ratings also derive support from the diversified product mix and experienced management. However, the ratings continue to factor in the company's exposure to geographical concentration risk and fluctuations in forex rates. Further, the ratings also note the risks associated with the company's working capital-intensive operations.

### Update

Sigma reported revenue of Rs.760.14 crore in FY2014-15 (refers to financial year, April 01 to March 31), as compared with revenue of Rs.604.05 crore in the previous year while the revenue for FY2015-16 (provisional) stood at ~Rs.740 crore. The company undertook capex (funded through internal accruals) to increase manufacturing capacity from 32,835 TPA to 35,023 TPA. Sigma's capacity utilisation increased to ~60 per cent in FY2014-15 as against ~55 per cent in FY2013-14. The company's operating profit margin improved from 14.42 per cent in FY2013-14 to 15.39 per cent in FY2014-15.

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Sigma has maintained its robust financial risk profile with low leverage (total outside liabilities to tangible net worth) of 0.27 times as on March 31, 2015. The company does not have any long-term debt on its books. Sigma registered healthy net cash accruals of Rs.94.68 crore in FY2014-15. The company reported strong cash balance of Rs.11.49 crore as on March 31, 2015.

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

However, 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. The group entity in turn caters to electrical equipment manufacturers and home appliance manufacturers with a customer base of around 80 – 100 spread around USA. Sigma's business remains susceptible to unfavourable changes in trade policies. The company is making attempts to acquire new customers in an attempt to reduce client and geographic concentration. Sigma's profit margins are susceptible to fluctuations in forex rates in the absence of any hedging mechanism. Besides, the operations are working capital-intensive with gross current assets of 155 days in FY2014-15 (previous year 181 days).

**Outlook: Stable**

SMERA believes Sigma's outlook will remain stable over the medium term driven by the company's healthy business prospects in the near term. The outlook may be revised to 'Positive' in case the company effectively diversifies its geographical reach while maintaining a strong financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or prevalence of economic uncertainties in the company's key markets.

**Rating Sensitivity Factors**

- Diversifying geographic reach while maintaining strong financial risk profile
- Managing currency fluctuation risk
- Efficient working capital management

**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 Electric Holdings (Mauritius) holds 100% equity stake in Sigma. The company is engaged in the manufacture of electrical wiring and lighting accessories such as electrical boxes, connectors and fittings at Pune (Maharashtra) and Jaipur (Rajasthan). Its total installed capacity is 35,023 metric tonnes per annum.

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*Rating  
Rationale*

During FY2007–08, Goldman Sachs Capital Partner Fund, a private equity fund, acquired majority equity stake (i.e. 80.11 per cent stake for ~USD172 million) in Sigma Electric Holdings, Mauritius. At present, Goldman Sachs Capital Partner Fund is looking for PE exit.

For FY2014–15, Sigma reported profit after tax (PAT) of Rs.50.88 crore on revenues of Rs.760.14 crore, as compared with PAT of Rs.33.11 crore on revenues of Rs.604.05 crore for FY2013–14.

### Contact List

Media/Business Development	Analytical Contact	Rating Desk
Mr. Suman M National Sales Head – Emerging Corporate Group Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: <a href="mailto:suman.m@smera.in">suman.m@smera.in</a>	Mr. Mohit Jain Vice President – Rating Operations Tel: +91-22-6714 1105 Email: <a href="mailto:mohit.jain@smera.in">mohit.jain@smera.in</a>	Tel: +91-22-6714 1184 Email: <a href="mailto:ratingdesk@smera.in">ratingdesk@smera.in</a>

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