

## Press Release

### Sigma Electric Manufacturing Corporation Private Limited

26 September, 2017

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.164.00 Cr (enhanced from Rs.125 crore)
<b>Long Term Rating</b>	SMERA AA-/Negative (Reaffirmed; Outlook revised from Stable)
<b>Short Term Rating</b>	SMERA A1+ (Reaffirmed and Assigned)

*\*Refer Annexure for details*

### Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA AA-**' (read as **SMERA double A minus**) and short term rating of '**SMERA A1+**' (read as **SMERA A one plus**) on the Rs.113.00 crore bank facilities and assigned short term rating of '**SMERA A1+**' on the Rs.51.00 crore proposed bank facilities of Sigma Electric Manufacturing Corporation Private Limited (Sigma). The outlook has been revised from '**Stable**' to '**Negative**'. The revision in outlook is in view of the increasing receivable days and profitability pressures faced by the company.

Sigma (formerly known as Semco Electric Private Limited) is a Pune-based company established in 1996 by Mr. Sajjan Kumar Agarwal. During FY2007-08, Goldman Sachs Capital Partner Fund, a private equity fund, acquired 80.11 per cent equity stake in Sigma Electric Holdings, Mauritius (holding company of Sigma). In October 2016, Argand Partners LP, a New York-based private equity firm acquired entire stake from Goldman Sachs Private Equity and other shareholders. Mr. Viren A. Joshi continues to be the Director of 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). The total installed capacity is 33,587 metric tonnes per annum.

### List of Key Rating Drivers and their detailed description

#### Strengths:

**Long track record of operations and experienced management:** Sigma is engaged in the manufacturing of electrical wiring and lighting accessories since 1996. The diversified product mix includes electrical boxes, connectors, fittings and other electrical accessories. The company benefits from its experienced management. Mr. Viren A. Joshi has extensive experience in the electrical industry. SMERA believes that Sigma will continue to benefit from its established position and experienced management.

**Moderate revenue growth** - Sigma has grown at a ~12 per cent CAGR during FY2012 to FY2017. The company reported revenue of Rs.755.63 crore in FY2015-16, compared to Rs.760.14 crore in the previous year. Revenues stood at Rs.801.68 crore in FY2016-17 (Provisional).

**Healthy financial risk profile:** Sigma has maintained a robust financial risk profile with low leverage (total outside liabilities to tangible net worth) of 0.19 times as on 31 March, 2016 (previous year - 0.27 times). As on 31 March, 2017, the gearing stood at 0.33 times (Provisional). The company does not have any long-term debt on its books. Sigma registered healthy net cash

accruals of Rs.121.59 crore in FY2015-16 and Rs.77.55 crore in FY2016-17 (Provisional). The company reported strong cash balance of Rs.11.80 crore as on 31 March, 2017.

SMERA believes that Sigma will sustain a healthy financial risk profile on the back of its healthy cash accruals and absence of debt funded capex plans.

### Weaknesses

**Customer concentration risk:** Sigma remains exposed to customer concentration risks as sales to the US-based group entity (Sigma Electric Manufacturing Company) accounts for ~92 per cent of the total revenue. The group entity in turn caters to electrical equipment and home appliance manufacturers with a customer base of around 80 – 100 spread across USA. Sigma's operations are working capital-intensive with gross current assets of 188 days in FY2015-16 (previous year 155 days). The same increased to 214 days in FY2016-17 (Provisional) mainly on account of stretch in the collection period from 93 days in FY2015-16 to 146 days in FY2016-17 most of which were from group entity. SMERA believes that any challenges faced by the US-based group entity in scaling up operations or any financial pressures in the US-based group entity will translate into pressures for Sigma. Further, efficient working capital management, more importantly receivable management, will be crucial to maintain a stable credit profile.

**Susceptibility of margins to volatility in exchange rates and commodity prices:** The operating margins declined in FY2016-17 (Provisional) to 13.65 per cent from 18.90 per cent in FY2015-16. Sigma's profit margins are susceptible to fluctuations in forex rates in the absence of any hedging mechanism as well as volatility in raw material prices of aluminium, copper and zinc alloy ingots. In FY2016-17, the company also incurred expenses to the tune of Rs.28.98 crore (related to the PE exit) which resulted in fall in PAT margin from 10.00 per cent in FY2015-16 to 3.76 per cent in FY2016-17.

**Analytical approach:** SMERA has considered the standalone business and financial risk profile of Sigma to arrive at the rating.

### Outlook: Negative

SMERA believes that the outlook on Sigma will remain negative over the medium term. Sigma's credit profile is likely to exhibit downward pressures over the near to medium term on account of the significant buildup in its receivables coupled with profitability pressures. The rating maybe downgraded in case of further stretch in receivables and decline in margins. Conversely, the outlook may be revised to 'Stable' in case the company demonstrates significant improvements in receivable days while maintaining its margins and revenue growth.

### About the Rated Entity – Key Financials

For FY2015-16, Sigma reported profit after tax (PAT) of Rs.75.58 crore on revenue of Rs.755.63 crore, compared with PAT of Rs.50.88 crore on revenue of Rs. 760.14 crore for FY2014-15. The tangible networth stood at Rs.527.64 as on 31 March, 2016 compared to Rs.451.82 crore as on 31 March, 2015. As per provisional financials for FY2016-17, Sigma reported PAT of Rs.30.13 crore on revenue of Rs.801.68 crore.

### Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>

- Default Recognition: <https://www.smera.in/criteria-default.htm>

**Note on complexity levels of the rated instrument:**

<https://www.smera.in/criteria-complexity-levels.htm>

**Status of non-cooperation with previous CRA:** CARE has suspended (February 21, 2014), the ratings assigned to the bank facilities of Sigma Electric Manufacturing Corporation Private Limited with immediate effect. The ratings have been suspended, as the firm has not furnished the information required by CARE for monitoring of the rating.

**Any other information:** The holding company has set up an Indian company viz. Sigma Electric Manufacturing Limited. Sigma and Sigma Electric Manufacturing Limited will be amalgamated and renamed Sigma Electric Manufacturing Corporation Private Limited. The bankers have given the NOC. The amalgamation is pending approval from National Company Law Tribunal (NCLT).

**Rating History (Upto last three years):**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14 May, 2016	Export Packing Credit/ Packing Credit in Foreign Currency	Short Term	72.00#	SMERA A1+ (Reaffirmed)
	Letter of Credit/Bank Guarantee	Short Term	39.50	SMERA A1+ (Reaffirmed)
	Cash Credit	Long Term	13.50*	SMERA AA-/Stable (Upgraded)
31 March, 2015	Export Packing Credit/PCFC	Short Term	72.00#	SMERA A1+ (Reaffirmed)
	Letter of Credit/Bank Guarantee	Short Term	39.50	SMERA A1+ (Reaffirmed)
	Cash Credit	Long Term	13.50*	SMERA A+/Stable (Reaffirmed)
31 January, 2014	Export Packing Credit / PCFC	Short Term	85.50	SMERA A1+ (Assigned)
	Letter of Credit / Bank Guarantee	Short Term	39.50	SMERA A1+ (Assigned)
	Cash credit	Long Term	42.80*	SMERA A+/Stable (Assigned)

#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

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Export Packing Credit/ Packing Credit in Foreign Currency	N.A.	N.A.	N.A.	44.00# (reduced from Rs.72.00)	SMERA A1+ (Reaffirmed)
Letter of Credit/Bank Guarantee	N.A.	N.A.	N.A.	55.50 (enhanced from Rs.39.50)	SMERA A1+ (Reaffirmed)
Cash Credit	N.A.	N.A.	N.A.	13.50*	SMERA AA- /Negative (Reaffirmed; outlook revised from Stable)
Proposed Short term facility	N.A.	N.A.	N.A.	51.00	SMERA A1+ (Assigned)

#includes sublimit of Cash credit of Rs.17.30 crore

\*includes sublimit of EPC/PCFC - fully interchangeable

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**ABOUT SMERA**

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