



SMERA RATINGS LIMITED

KMG AtoZ Systems Pvt. Ltd. (KMG)

*Rating
Rationale*

April 15, 2014

Facilities	Amount (Rs. Crore)	Ratings
Open Cash Credit	4.75	SMERA BB-/Stable (Assigned)
Cash Credit	29.00	SMERA BB-/Stable (Assigned)
Bank Guarantee	15.00	SMERA A4+ (Assigned)
Bank Guarantee	70.00*	SMERA A4+ (Assigned)

**Letter of Credit as a sublimit of Bank Guarantee to the extent of Rs. 6.00 crore.*

SMERA has assigned a rating of '**SMERA BB-**' (read as **SMERA double B minus**) and '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.118.75 crore bank facilities of KMG AtoZ Systems Pvt. Ltd. (KMG). The outlook is '**Stable**'. The ratings are constrained by the company's weak financial risk profile and working capital-intensive operations in a highly competitive and fragmented industry. However, the ratings derive comfort from the company's long track record of operations, experienced management and reputed clientele.

KMG, established in 1999, is a Noida-based company engaged in implementing turnkey electrical projects for state electricity boards. KMG is also involved in manufacturing of electrical power distribution and control equipment. The company's weak financial risk profile is marked by high gearing (debt-equity ratio) of 3.13 times as on March 31, 2013 and low net cash accruals to total debt (NCA/TD) ratio of 0.06 times in FY2012-13 (refers to financial year, April 01 to March 31). Moreover, KMG's interest coverage has declined from 2.11 times in FY2011-12 to 1.53 times in FY2012-13. The company's operations are working capital-intensive, as evidenced by stretched operating cycle of 172 days in FY2012-13. KMG faces intense competition from several players in the electric transmission and distribution industry.

KMG benefits from its experienced management. The promoters of KMG have ten years of experience in the company's line of business. KMG caters to several reputed customers, including Bharat Heavy Electrical Limited (BHEL), L&T and ABB India Ltd.

Outlook: Stable

SMERA believes the outlook on KMG's rated facilities will remain stable over the medium term on the back of the company's experienced management. The outlook may be revised to 'Negative' in case of decline in the company's revenues and profitability. Conversely, the outlook may be revised to 'Positive' in case the company generates larger-than-expected cash flows through timely execution of ongoing projects while maintaining comfortable operating profit margins.

SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.



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About the company

KMG, incorporated in 1999, is a Noida-based company promoted by Mr. Mast Ram Atter, Mr. Sat Paul Goyal and Mr. Sanjeev Krishan Sharma. KMG is engaged in implementing turnkey electrical projects for state electricity boards. The company also manufactures electrical power distribution and control equipment.

For FY2012-13, KMG reported PAT of Rs.1.59 crore on operating income of Rs.81.13 crore, as compared with PAT of Rs.1.51 crore on operating income of Rs.61.20 crore for FY2011-12. The company's net worth stood at Rs.11.44 crore as on March 31, 2013, as compared with Rs.10.03 crore a year earlier. As per provisional financial statements, KMG reported PAT of Rs.3.96 crore on total revenue of Rs.85.04 crore during April 2013 to February 2014. The company's net worth stood at Rs.19.01 crore (provisional) as on February 28, 2014.

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