

April 25, 2014

| Facilities | Amount (Rs. Crore) | Rating |
|--------------------|-----------------------|-------------------------------------|
| Cash Credit | 6.00 | SMERA BB-/ Stable (Assigned) |
| Term Loan 1 | 1.96 | SMERA BB-/ Stable (Assigned) |
| Term Loan 2 | 2.04 | SMERA BB-/ Stable (Assigned) |
| Term Loan 3 | 1.50 | SMERA BB-/ Stable (Assigned) |
| Term Loan 4 | 1.50 | SMERA BB-/ Stable (Assigned) |

SMERA has assigned a rating of '**SMERA BB-**' (read as **SMERA double B minus**) to the Rs.13.00 crore bank facilities of Santhi Casting Works (SCW). The outlook is '**Stable**'. The rating is constrained by firm's small scale of operations, high dependence on the automobile sector and exposure to intense competition prevalent in the metal castings industry. The rating is further constrained by the firm's working capital-intensive operations and proprietorship constitution. However, the rating derives comfort from the firm's moderate debt protection metrics, stable revenues from wind power generation and experienced management.

SCW, established in 1971, is a Coimbatore-based firm engaged in manufacturing of gray iron (GI) and spheroidal graphite (SG) castings. SCW is also engaged in generating wind power. The firm has eight windmills in Tuticorin and Tirunelveli (Tamil Nadu), with total power generation capacity of 4.4 MW. SCW derives ~80 per cent of its revenues from castings, which are mainly supplied to auto ancillary manufacturers. The firm is thus exposed to the current slowdown in the automobile industry.

SCW has limited bargaining power with its customers owing to the highly competitive and fragmented nature of the castings industry. The firm has small-scale operations reflected in revenues of Rs.22.92 crore in FY2012-13 (refers to financial year, April 01 to March 31). SCW operates at only 50 per cent of its total capacity on account of the prevailing power shortage in Tamil Nadu. Consequently, the firm's castings division posted low net profit margin of 0.40 per cent in FY2012-13, as compared with consolidated net profit margin (after considering windmill operations) of 5.92 per cent during the same year.

SCW's operations are working capital-intensive. The firm's inventory holding period and working capital cycle is stretched at ~60 days and 80 days, respectively in FY2012-13. SCW's proprietorship constitution is characterized with the risk of withdrawal of capital, which may adversely affect the firm's financial risk profile. However, no withdrawal of capital was observed during the period under study.

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SCW has moderate debt protection metrics, as reflected in leverage of 1.34 times as on March 31, 2013 and interest coverage ratio of 2.21 times in FY2012-13. The firm's net (adjusted) debt-to-tangible net worth ratio stands at 0.95 times, after considering cash balance of Rs.5.10 crore as on March 31, 2013. SCW's revenues from wind power generation increased from Rs.3.12 crore in FY2011-12 to Rs.4.12 crore in FY2012-13. Moreover, the firm's wind power operations turned profitable in FY2012-13.

SCW benefits from its experienced management. Mr. M. Kandasamy, proprietor of SCW, has over four decades of experience in the metal castings industry. Ms. Mohana Geetha (daughter of Mr. M. Kandasamy) has eight years of experience in the firm's line of business.

Outlook: Stable

SMERA believes the outlook on SCW's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' in case the firm expands its scale of operations while maintaining a comfortable liquidity position and satisfactory capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile.

About the firm

SCW, established in 1971, is a Coimbatore-based proprietorship firm promoted by Mr. M. Kandasamy. SCW is engaged in manufacturing of gray iron (GI) and spheroidal graphite (SG) castings. The firm is also engaged in wind power generation.

For FY2012-13, SCW reported net profit of Rs.1.36 crore on total income of Rs.22.92 crore, as compared with net profit of Rs.0.14 crore on total income of Rs.21.20 crore for FY2011-12. The firm registered revenues of Rs.13.82 crore during April 2013 to October 2013. SCW's net worth stood at Rs.13.08 crore as on March 31, 2013, as compared with Rs.11.73 crore a year earlier.

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