

August 18, 2015

| Facilities | Amount (Rs. Crore) | Ratings |
|-------------------------|--------------------|------------------------------------|
| Cash Credit | 8.00 | SMERA A/Stable (Reaffirmed) |
| Bank Guarantee | 40.00 | SMERA A1 (Reaffirmed) |
| Letter of Credit | 2.00 | SMERA A1 (Reaffirmed) |

SMERA has reaffirmed the rating of '**SMERA A**' (read as SMERA A) and '**SMERA A1**' (read as SMERA A one) on the Rs.50.00 crore bank facilities of Arudra Engineers Private Limited (AEPL). The outlook is '**Stable**'. The ratings continue to draw comfort from the company's strong market position and extensive experience of the promoters in the equipment manufacturing industry. The ratings also draw support from the above-average financial risk profile marked by healthy net worth and strong debt protection metrics. However, the ratings are constrained by the susceptibility of the company's profitability to volatility in raw material prices.

Update

AEPL recorded provisional revenues of Rs.110 crore during FY2014-15, in line with SMERA's expectations. SMERA expects the company to maintain stable revenues over the medium term, driven by its long standing experience in the industry and established clientele. The company's operating margins have remained volatile in the range of 12 to 18 per cent over the last five years due to volatility in raw material prices and change in the revenue mix. SMERA believes that the company's profitability will remain susceptible to volatility in input prices. Despite the volatility in profitability, the ratings factor in AEPL's strong net worth and debt protection metrics. The company's liquidity also remains strong marked by healthy cash accruals, absence of term debt obligations and negligible utilisation of working capital limits.

Outlook: Stable

SMERA believes AEPL will continue to benefit over the medium term from the long track record of the promoters in the industry and diverse revenue profile. The outlook may be revised to 'Positive' in case the company registers strong growth in revenue while achieving sustained improvement in profitability leading to further improvement in its business risk profile. The outlook may be revised to 'Negative' in case the company registers lower accruals or deterioration in the company's working capital management leading to deterioration in its liquidity.

Rating Sensitivity Factors

- Considerable improvement in revenues
- Sustained improvement in profitability

About the Company

AEPL, established in 1980, is engaged in the manufacture of material handling equipment, setting up of water distribution systems and firefighting equipment. Further, the company also undertakes chemical cleaning of high pressure boilers, condensers, pipelines and heat exchangers. AEPL's operations are managed by Mr. Mr. V. Lakshmanan, Mr. R. Natraj, Mr. V. Balasubramanian among others.

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