SMERA RATINGS LIMITED

IGP Engineers Private Limited: Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	5.00*	SMERA A+/Stable (Reaffirmed)
Packing Credit	5.00	SMERA A1 (Reaffirmed)
Bill Purchase	7.00	SMERA A1 (Reaffirmed)
Bank Guarantee	4.00	SMERA A1 (Reaffirmed)
Letter of Credit	16.00	SMERA A1 (Reaffirmed)

**Interchangeable with packing credit to the extent of Rs. 5.00 crore.*

SMERA has reaffirmed the rating of **'SMERA A+' (read as SMERA A plus) and 'SMERA A1' (read as SMERA A one)** on the Rs.37.00 crore bank facilities of IGP Engineers Private Limited (IGPEPL). The outlook is '**Stable**'. The ratings continue to draw comfort from the company's strong market position in the gasket manufacturing industry and reputed clientele. The ratings are also supported by the robust financial risk profile marked by comfortable gearing and strong debt protection metrics. However, the ratings are constrained by the susceptibility of the profitability to volatility in raw material prices.

Update

IGPEPL reported operating income of Rs.186.93 in FY2015-16 (provisional), crore as against Rs.240.57 crore in the previous year, registering a decline of ~23 per cent. The prices of steel, the main raw material, declined resulting in lower realisation for the end product in FY2015-16.

However, the operating margin improved to 14.85 per cent in FY2015-16 (provisional) vis-à-vis 13.71 per cent in the previous year. The improvement in profitability is due to increase in sales of higher margin products in FY2015-16 as compared to the previous year. Further, the company's profitability continues to remain susceptible to volatility in raw material prices in the absence of price escalation clause.

IGPEPL, established in 1954, benefits from its long standing presence in the gasket manufacturing industry. The company caters to reputed clients including Reliance Industries Limited, L&T Valves Limited and Essar Oil Limited among others.

The company reported networth of Rs.130.43 crore as on March 31st, 2016 (provisional) as against Rs.139.71 in the previous year. The decline in networth is mainly on account of payment of dividend from reserves during FY2015-16 to celebrate completion of 60 years of the company's existence. However, the company's financial risk profile continues to remain healthy marked by gearing of 0.13 times as on March 31st, 2015 and interest coverage ratio of 9.00 times for FY 2014-15. Further, the gearing stood at 0.09 times as on March 31st, 2016 (provisional) and interest coverage of 10.78 times for FY2015-16 (provisional).

The company also plans to set-up an additional manufacturing unit in an area of 60,000 Sq. ft. at Thiruporur near Chennai. The total project cost is Rs.11.00 crore and same is expected to be funded through internal accruals and unsecured loan from directors. The factory is expected to commence operations from March, 2017. However, the additional unit is not expected to increase the manufacturing capacity as one of the two existing units will be used for R&D purposes.

The company's liquidity remains comfortable with cash credit limit utilisation of around 53 per cent for the last six months ended August, 2016.

Rating Sensitivity Factors

- Scaling up operations while improving profitability
- Efficient working capital management
- Deterioration in the capital structure

Criteria applied to arrive at the ratings:

- Manufacturing Entities

Outlook-Stable

SMERA believes that the outlook on IGPEPL will continue to remain stable over the medium term owing to the company's established market position in the gasket industry. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue alongwith improvement in profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or liquidity position.

About the Company

IGPEPL, established in 1954 is engaged in the manufacture of metallic and non-metallic gaskets. The operations are managed by its promoters, Mr. V. Lakshmanan, Mr. V. Balasubramanian, Mr. K. Shyamsundar and Others. The company presently has two manufacturing units located at Chennai and Chengalpattu.

In FY2014-15, IGPEPL reported profit after tax (PAT) of Rs.19.51 crore on operating income of Rs. 240.57 crore as compared to PAT of Rs.18.07 crore on operating income of Rs.177.35 crore in the previous year. Further, the company reported profit before tax of Rs.16.07 crore on operating income of Rs.186.93 crore for FY2015-16 (provisional).

Rating History:

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
18 August, 2015	Cash Credit	5.00	SMERA A+ (Reaffirmed)	-	Stable
	Packing Credit	5.00	-	SMERA A1 (Reaffirmed)	-
	Bill Purchase	7.00	-	SMERA A1 (Reaffirmed)	-
	Bank of Guarantee	4.00	-	SMERA A1 (Reaffirmed)	-
	Letter of Credit	16.00	-	SMERA A1 (Reaffirmed)	-
9 May, 2014	Cash Credit	5.00	SMERA A+ (Assigned)	-	-
	Packing Credit	5.00	-	SMERA A1 (Assigned)	-
	Bill Purchase	7.00	-	SMERA A1 (Assigned)	-
	Bank of Guarantee	4.00	-	SMERA A1 (Assigned)	-
	Letter of Credit	16.00	-	SMERA A1 (Assigned)	-

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ABOUT SMERA

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