



September 21, 2010

ICRA re-affirms the LAA- and A1+ ratings for the bank facilities of Shanthi Gears Limited

ICRA has re-affirmed the LAA- (pronounced L double A minus) rating outstanding on the USD 3.6 million term loan facilities, the Rs.30.0 crore¹ fund-based facilities (reduced from Rs.50.0 crore), the Rs.10.0 crore fund-based (sub-limit) facilities (reduced from Rs.25.0 crore) and the Rs.5.0 crore non-fund based facilities of Shanthi Gears Limited[†] ("SGL" / "the Company"). The outlook on the long-term rating is stable. Although the term loan facilities of the Company are denominated in foreign currency, ICRA's rating for the same is on the national scale as distinct from an international rating scale. ICRA has also re-affirmed the A1+ (pronounced A one plus) rating outstanding on the Rs.2.0 crore fund-based (sub-limit) facilities (reduced from Rs.7.5 crore), the Rs.15.0 crore non-fund based facilities and the Rs.2.0 crore non-fund based (sub-limit) facilities of SGL. ICRA has withdrawn the LAA- (pronounced L double A minus) rating on the Rs.6.5 crore term loan facility of SGL, since the instrument has been repaid in full.

The re-affirmation of ratings reflects the comfortable financial profile of SGL, as characterised by healthy margins, low gearing and strong cash flows. The ratings consider the established presence of the promoters in the industry for over four decades and a diversified client base / customer segments which mitigate business concentration. The ratings are, however, constrained by the Company's shift in focus towards high-margin customized product segment, which increases the volatility in revenues / profitability, in the backdrop of sharp decline in scale of operations in an industry characterized by growing competition. SGL's exit from the low-margin businesses has resulted in fall in its market share and scale of operations. Despite the fall in revenues in 2009-10, the working capital intensity remains high due to significant inventory levels. SGL proposes to forward integrate into manufacture of material handling equipment, compressors and mining equipment, in which gears and gear-boxes constitute a vital component. Any delay in this forward integration could have an adverse impact on the Company's revenue growth and return on capital. SGL's ability to scale up the operations would be a critical factor in sustaining its credit profile.

Company Profile

Commencing business as a gear manufacturer for the textile industry in 1969, SGL diversified into the manufacture of standard (off-the-shelf) and customised (non-standard) gears over the years. SGL caters to various industries including steel, compressors, power, earthmoving equipment, cement and textiles. SGL's product portfolio encompasses a range of customised gear boxes, loose gears, worm gear boxes and helical gear boxes. The Company has manufacturing facilities (including a foundry) located in and around Coimbatore, Tamil Nadu.

SGL was promoted by a first generation entrepreneur, Mr. P Subramanian, who is currently the Chairman and Managing Director. As on June 30, 2010, the promoters held 44.7 per cent stake in the Company. SGL is listed on the National Stock Exchange and the Bombay Stock Exchange.

Recent Results

For the year ended March 31, 2010, the Company reported net profit of Rs.16.2 crore on an operating income of Rs.121.4 crore.

September 2010

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

PRESS RELEASE

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex".
The classification of instruments according to their complexity levels is available on the website www.icra.in