

Press Release

Supreme Gums Private Limited (SGPL)

12 February, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.30.05 Cr.
Long Term Rating	SMERA BBB-/Outlook: Stable (Withdrawn)
Short Term Rating	SMERA A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has withdrawn the long term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs.0.43 crore bank facilities and reaffirmed the short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.30.05 crore bank facilities of Supreme Gums Private Limited. The outlook is '**Stable**'. The long term rating has been withdrawn as the term loans have been fully repaid and SGPL has submitted the 'No Dues Certificate' received from the bank to SMERA

Supreme Gums Private Limited (SGPL), incorporated in 2002, is a Rajasthan-based company promoted by Mr. Naresh Kumar Jain and Mr. Pradeep Jain. The company is engaged in the manufacture of guar gum powder and trading of guar splits. SGPL caters largely to the export market and sells its products under the 'SUPREME' brand name.

Key rating drivers

Strengths

Experienced management and long track record of operations: SGPL was incorporated in 2002 by Mr. Naresh Kumar Jain and Mr. Pradeep Jain. The promoters have almost two decades of experience in the guar gum industry. The company's operations are also supported by second generation entrepreneur, Mr. Tarun Jain.

Increase in turnover along with development of new products: The operating income of the company increased to Rs.145.55 crore in FY2017 from Rs.91.75 crore in FY2016 due to increase in production capacity supported by contracts entered into with customers. The company generated operating income of ~Rs.122 crore from April 2017 to January 2018 (Provisional). The company also developed new products (in HydraCAT and HydraCOL range) that find application in cosmetics, pharma and food industries. The new products developed by the company also provide revenue visibility over the medium term.

Average financial risk profile The average financial risk profile is marked by healthy net worth levels, moderate gearing and debt protection measures. The net worth levels stood at Rs.37.02 crore as on 31 March, 2017 as compared to Rs.35.42 crore in the previous year. The gearing levels increased to 0.90 times in FY2017 compared to 0.01 times in FY2016 due to increase in utilisation of working capital limits. The interest coverage levels

decreased to 3.01 times in FY2017 from 21.84 times in FY2016 due to decrease in the profitability levels coupled with increase in interest expense. The net cash accruals to total debt (NCA/TD) stood at 0.09 times in FY2017.

Weaknesses

Working capital intensive operations: The company has working capital intensive operations, as reflected in the high Gross Current Assets (GCA) of 152 days as on 31 March, 2017 compared to 80 days as on 31 March, 2016 due to increase in debtor and inventory levels. The debtor days in FY2017 increased to 78 compared to 41 in FY2016 due to extended credit terms with reputed clientele. The inventory days increased to 61 in FY2017 as against 13 days in FY2016 as a result of contracts executed in time.

Volatility in raw material prices and foreign currency fluctuation impacts operating profitability: The major raw material for manufacturing guar gum powder is guar seed, which is an agro-commodity. Due to high dependence on monsoons, guar seed supply can vary which may lead to fluctuations in prices. However, the risk is mitigated to a certain extent, as SGPL enters into contracts with customers after the harvest in November. The company majorly exports its products to USA, UK and Mexico. The margins are partially impacted by foreign exchange losses. The operating margins declined from 5.94 crore in FY2016 to 3.03 per cent in FY2017 due to increase in power and fuel costs, foreign exchange losses and increase in revenue from traded guar gum powder. SGPL generated 17.93 per cent of revenues from traded activities in FY2017.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SGPL.

Outlook: Stable

SMERA believes that the outlook of SGPL will remain Stable over the medium term owing to its experienced promoters. The outlook may be revised to 'Positive' if the firm achieves more than expected revenue and profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and profitability or deterioration in the capital structure.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	144.55	91.75	305.77
EBITDA	Rs. Cr.	4.41	5.45	7.10
PAT	Rs. Cr.	1.59	3.37	1.66
EBITDA Margin	(%)	3.03	5.94	2.32
PAT Margin	(%)	1.09	3.68	0.54
ROCE	(%)	8.24	11.45	22.35
Total Debt/Tangible Net Worth	Times	0.90	0.01	0.61
PBDIT/Interest	Times	3.01	21.84	2.57
Total Debt/PBDIT	Times	5.60	0.03	2.46
Gross Current Assets (Days)	Days	152	80	55

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
15-Nov, 2016	Packing Credit	Short Term	10.00	SMERA A3 (Reaffirmed)
	Bills Discounting	Short Term	20.00	SMERA A3 (Reaffirmed)
	Term Loan	Long Term	0.43	SMERA BBB-/Stable (Reaffirmed)
	Letter of Guarantee	Short Term	0.05	SMERA A3 (Reaffirmed)
26-Jun, 2015	Packing Credit	Short Term	10.00	SMERA A3 (Assigned)
	Bills Discounting	Short Term	20.00	SMERA A3 (Assigned)
	Term Loan	Long Term	0.43	SMERA BBB-/Stable (Assigned)
	Letter of Guarantee	Short Term	0.05	SMERA A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.43	SMERA BBB-/Stable (Withdrawn)
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	SMERA A3 (Reaffirmed)

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ABOUT SMERA

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