

Press Release

Supreme Gums Private Limited

May 02, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 30.05 Cr.
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 30.05 crore bank facilities of Supreme Gums Private Limited (SGPL).

SGPL, based at Rajasthan, was incorporated in 2002. The company is 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. The company has manufacturing capacity of 18000 MTPA.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SGPL for arriving at the rating.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The company was incorporated in 2002 and has established presence of over a decade in the said line of business. The company has also established market for its own brand 'Supreme' in international markets such as USA, Russia, Netherlands and Switzerland as well as in domestic market. The company is largely into export of its products which contributes to 95.00 percent of its total revenue in FY2018. The promoters, Mr. Naresh Kumar Jain and Mr. Pradeep Jain 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 and second line of management.

• Improving revenue and proximity to raw material

The operating income of the company increased to Rs. 153.61 crore in FY2018 from Rs. 145.55 crore in FY2017, due to increase in production capacity which was well supported by contracts entered into with customers. The company has generated operating income of Rs. 234.81 crore in FY2019. 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. Further, the company's manufacturing facility is located in Rajasthan which provides proximity to raw material thereby reducing logistic cost.

• Moderate financial risk profile

The financial risk profile of the company is marked by comfortable net worth, moderate gearing and debt protection metrics. The net worth of the company stood at Rs. 37.46 crore as on March 31, 2018 as against Rs. 37.02 crore as on March 31, 2017. The Gearing ratio (debt equity) stood at 0.56 times as on March 31, 2018 as against 0.90 times as on March 31, 2017. Interest Coverage Ratio stood at 2.29 times March 31, 2018 as against 3.01 times March 31, 2017, due to decrease in the profitability levels coupled with increase in interest expense. The DSCR stood at 2.08 times in FY2018.

Weaknesses

• Moderately working capital intensive operations

The company has moderately working capital intensive operations as reflected in the moderate Gross Current Assets (GCA) of 106 days as on 31 March, 2018 as compared to 152 days as on 31 March, 2017. The same is due to extended credit terms with reputed clientele. The average bank limit utilisation was 81.16 per cent for last six months ending February 2019.

• Volatility in raw material prices and foreign currency fluctuation risk

The major raw material for manufacturing guar gum powder is guar seed, which is an agro-commodity. Its availability is highly dependent 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, which contributes 95.00 percent of the revenue. The margins are partially impacted by foreign currency fluctuation. The operating margins have declined from 3.03 per cent in FY2017 to 2.06 per cent in FY2018.

Liquidity Position:

The liquidity of the company stood moderate marked by net cash accruals of Rs. 2.11 crore as against no repayment obligation for FY2018. The cash accruals are estimated to remain around Rs.3.50-5.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.30 crore. The current ratio has improved to 1.98 times in FY2018 as compared to 1.55 times in FY2017. The working capital bank limit utilisation stood at 81.16 per cent for last six months ending February 2019. The company maintains unencumbered cash and bank balances of Rs. 6.78 crore as on March 31, 2018. Acuite believes that the liquidity of the company will remain adequate over the near to medium term because of improving net cash accruals and low repayment obligations.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	153.61	145.55	91.75
EBITDA	Rs. Cr.	3.16	4.41	5.45
PAT	Rs. Cr.	0.73	1.59	3.37
EBITDA Margin	(%)	2.06	3.03	5.94
PAT Margin	(%)	0.47	1.09	3.68
ROCE	(%)	4.78	8.24	11.45
Total Debt/Tangible Net Worth	Times	0.56	0.90	0.01
PBDIT/Interest	Times	2.29	3.01	21.84
Total Debt/PBDIT	Times	4.74	5.60	0.03
Gross Current Assets (Days)	Days	106	152	80

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Feb-2018	Packing Credit *	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bills Discounting *	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.43	ACUITE BBB- / Stable (withdrawn)
	Letter of Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
15-Nov-2016	Packing Credit	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.43	ACUITE BBB- / Stable (Reaffirmed)
	Letter of Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
26-Jun-2015	Packing Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	20.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	0.43	ACUITE BBB- / Stable (Assigned)
	Letter of Guarantee	Short Term	0.05	ACUITE A3 (Assigned)

*Interchange ability of Rs.9.00 crore from bills discounting to packing credit and vice versa

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit *	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)
Bills Discounting *	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3 (Reaffirmed)

*Interchange ability of Rs.9.00 crore from bills discounting to packing credit and vice versa

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About Acuité Ratings & Research:

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