

Press Release

Supreme Gums Private Limited

December 30, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 35.05 crore (Enhanced from Rs.30.05)
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 above mentioned bank facilities of Rs. 35.05 crore (Enhanced from Rs.30.05) for Supreme Gums Private Limited (SGPL). The outlook is '**Stable**'.

Supreme Gums Private Limited (SGPL) based 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 market like USA, Russia, Netherlands and Switzerland as well as in domestic market. The company is largely in export of its products which contributes to 84.00 percent of its total revenue in FY2019. 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, Improving margins and proximity to raw material**

The operating income of the company increased to Rs. 229.22 crore in FY2019 from Rs. 153.23 crore in FY2018 due to increase in production capacity which was well supported by contracts entered into with customers. The company has generated the operating income of Rs. 133.27 crores for last seven months ending October 2019 and has order book position of Rs. 50.85 crores to be executable within three months ending March 2020. The operating margins of the company stood improved to 3.83 percent in FY2019 as against 1.88 percent in FY2018. The net profit margins of the company also improved to 1.63 percent in FY2019 as against 0.29 percent in FY2018. 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 facilities are 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 moderate net worth, low gearing and moderate debt protection metrics. The company's net worth has subsequently improved to Rs. 41.21 crore as on March 31, 2019 as against Rs. 37.46 crore as on March 31, 2018 on account of healthy

accretion to reserves during the same period. The company has followed a moderate leverage policy in the past, the same is reflected through its peak gearing level of 0.90 times since 2017. The gearing level (debt equity) stood at 0.81 times as on March 31, 2019 as against 0.56 times as on March 31, 2018. The gearing of the company is expected to remain low over the medium term on account of absence of any major debt funded capex plans and moderate accretion to reserves. The total debt of Rs. 33.58 crore as on March 31, 2019 consists of long-term debt of Rs.0.30 crore and working capital borrowings of Rs. 33.28 crore. The interest coverage (ICR) ratio stood moderate at 3.48 times in FY2019 as against 2.15 times in the previous year. Debt to EBITDA stood at 3.60 times in FY2019 as against 5.06 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.15 times in FY2019 and 0.09 times in FY2018. Acuité believes that the financial risk profile of the company is expected to remain healthy backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- **Moderately Working capital intensive nature of operations**

SGPL operations are moderately working capital intensive marked by Gross Current Assets (GCA) of about 103 days in FY2019 and 107 days in FY2018. The inventory days improved but stood moderate at 27 days for FY2019 and 37 days for FY2018. The debtor's days increased to 63 days for FY2019 as against 36 days for FY2018. The same is due to extended credit terms with reputed clientele. The working capital cycle is moderately stretched as the season begins from September to May and major execution of orders happens last and first quarter of every year, so working capital days are high at year end.

- **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 85.00 percent of the revenue. The margins are partially impacted by foreign currency fluctuation.

Liquidity Position: Adequate

The liquidity of the company stood moderate marked by net cash accruals of Rs. 5.10 crore as against Rs. 0.13-0.15 crore repayment obligation for FY2019. The cash accruals are estimated to remain around Rs.4.50-5.50 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.15 to 0.30 crore. The current ratio stood at 1.70 times in FY2019 as compared to 1.98 times in FY2018. The working capital bank limit utilisation stood at 74.20 per cent for last six months ending November 2019. The company maintains unencumbered cash and bank balances of Rs. 0.32 crore as on March 31, 2019. Acuité 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.

Rating Sensitivities

- Improving scale of operations
- Uneven Margins
- Maintaining Working capital cycle

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	229.22	153.23
PAT	Rs. Cr.	3.74	0.45
PAT Margin	(%)	1.63	0.29
Total Debt/Tangible Net Worth	Times	0.81	0.56
PBDIT/Interest	Times	3.48	2.15

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
02-May-2019	Packing Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Letter of Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
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)

***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	17.50 (Enhanced from 15.00)	ACUITE A3 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	17.50* (Enhanced from 15.00)	ACUITE A3 (Reaffirmed)
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3 (Reaffirmed)

*Interchange ability of Rs.8.75 crore from bills discounting to packing credit and vice versa

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Rupesh Patel Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.