

Press Release

Supreme Gums Private Limited

March 26, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.35.05 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**) on the Rs.35.05 crore bank facilities of Supreme Gums Private Limited (ATPL). The outlook is '**Stable**'.

About the Company

Supreme Gums Private Limited (SGPL) based in Rajasthan was incorporated in the year 2002. The company is promoted by Mr. Naresh Kumar Jain and Mr. Pradeep Jain. The company is engaged in the manufacturing 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SGPL to arrive at the rating.

Key Rating Drivers

Strengths

• **Established track record of operations and experience management**

The company was incorporated in the year 2002 and has established presence of over a decade in the said line of business. The company also has an 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 94 percent of its total revenue in FY2020. 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. Further, the company's manufacturing facilities are located in Rajasthan which provides proximity to raw material thereby reducing logistic cost.

Acuité believes that the company will continue to benefit from the promoter's experience, its established presence in the industry and close proximity to raw material improving its business risk profile over the medium term.

• **Healthy financial risk profile**

SGPL's financial risk profile is healthy marked by healthy net worth, low gearing (debt-equity) and healthy debt protection metrics. The tangible net worth of the company stood at Rs.57.17 crore as on March 31, 2020 as against Rs.54.01 crore as on March 31, 2019. The total debt of Rs.27.03 crore as on March 31, 2020 consist of Rs.0.31 crore of long term debt and Rs.26.72 crore of short term debt. The gearing (debt-equity) stood at 0.56 times as on March 31, 2020 as compared to 0.81 times as on March 31, 2019. Interest Coverage Ratio stood at 4.85 times for FY2020 as against 3.48 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 3.80 times in FY2020 as against 2.90 times in FY2019. Total outside Liabilities/Total Net Worth (TOL/TNW) stood high at 0.66 times as on March 31, 2020 as against 1.01 times on March 31, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood moderate at 0.32 times for FY2020 as against 0.15 times for FY2019.

Acuité believes that the financial risk profile of SGPL will continue to remain moderate over the medium term.

Weaknesses

• Moderately intensive working capital cycle

The company has a moderately intensive working capital cycle marked by Gross Current Assets (GCA) days of 100 days in FY2020 as against 103 days in FY2019. The receivable days stood at 72 days in FY2020 as against 63 days in FY2019. The inventory days stood at 17 days in FY2020 as against 27 days in FY2019. The average bank limit utilization remained low at 33 percent for the past trailing 6 months ended February 2021.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

• 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 usually in the month of November. The company majorly exports its products to USA, UK and Mexico, which contributes 94 percent of the revenue. The margins are partially impacted by foreign currency fluctuation.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.80-8.65 crore during the last three years through 2018-20, while its maturing debt obligations were Rs.0.15-0.20 crore over the same period. The company's working capital operation is efficient marked by Gross Current Asset (GCA) of 100 days in FY2020 as against 103 days in FY2019. The company maintains an unencumbered cash and bank balances of Rs.0.05 crore as on March 31, 2020. The current ratio of the group stood at 2.11 times as on March 31, 2020. The average bank limit utilization stood low at around 33 percent for the last 6 months ended February 2021.

Outlook: Stable

Acuité believes that SGPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and track record of operations. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in financial risk profile due to higher-than-expected debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	223.13	229.22
PAT	Rs. Cr.	7.40	3.74
PAT Margin	(%)	3.32	1.63
Total Debt/Tangible Net Worth	Times	0.56	0.81
PBDIT/Interest	Times	4.85	3.48

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Dec-2019	Packing Credit	Short Term	17.50	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	17.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	0.05	ACUITE A3 (Reaffirmed)
02-May-2019	Packing Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	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)
	Letter of Credit	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.43	ACUITE BBB- (Withdrawn)

***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	ACUITE A3 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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