

Press Release

Supreme Gums Private Limited

August 19, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.50	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	17.50	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	35.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating at '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and short term rating at '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.35.00 crore bank facilities of Supreme Gums Private Limited (SGPL). The Outlook is '**Stable**'.

Rationale for reaffirmation

The rating reaffirmation takes into account the improvement in revenue, healthy financial risk profile of the company and adequate liquidity position. Company has recovered from the disruptions of covid pandemic and has improved revenue position by earning Rs. 196.26 Cr in FY 2022 (Provisional). Company's financial risk profile is healthy although gearing has moderated in FY 2022 (Provisional) from 0.20 times in FY 2021 to 0.83 times in FY 2022 (Provisional) due to increase in total debt. The rating however is constrained by moderately working capital intensive operations of the company which has increased the reliance of company on short term borrowings.

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

Acuite 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 experienced 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, Latin America and Europe as well as in domestic market. The company is largely in export of its products which contributes to 98 percent of its total revenue in FY 2022. 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 and strong debt protection metrics. The tangible net worth stood at Rs. 61.93 Cr as on 31st March 2022 (Provisional) as against Rs. 52.38 Cr in FY 2021 (Audited). The total debt of Rs. 51.71 Cr in FY 2022 consists of Rs. 10.00 Cr of long term borrowings in the form of GECL loan, Rs. 41.69 Cr of short term borrowings and Rs. 0.02 Cr of CPLTD. The gearing (debt-equity) stood comfortable at 0.83 times in FY 2022 (Provisional) and moderated from 0.20 times in FY 2021 on account of increase in short term borrowings. Interest Coverage Ratio stood strong at 8.20 times in FY 2022 and is expected to remain healthy in the near term. TOL/TNW moderated to 0.99 times in FY 2022 from 0.29 times in FY 2021. Financial risk profile is expected to stay healthy in the near term in the absence of any debt funded capex plans.

Weaknesses

Moderately intensive working capital cycle

The working capital management of the company is moderately intensive marked by GCA days of 190 in FY 2022 (Provisional). The debtor realization period stood at 108 days in FY 2022 (Provisional) is expected to stay at this level going forward since the receivable from the major export destination USA is around 120 days. Inventory holding period for FY 2022 (Provisional) stood at 48 days. At any given time company holds around 1000 ton of raw material to timely manufacture the products and service the demand of clients. Creditor days stood at 5 days as the company purchases materials on cash and carry basis.

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, Europe, Latin America etc. which contributes 98 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 its net cash accruals vs its maturing debt obligations. In FY 2022 Company generated NCA of Rs. 10.50 Cr against CPLTD of Rs. 0.02.

Going forward company is expected to generate NCA of Rs. 11.91 Cr in FY 2023 against nil debt obligation and Rs. 13.73 Cr in FY 2024 against CPLTD of Rs. 3.33 Cr. Company maintained cash and bank position of Rs. 13.76 Cr in FY 2022 and had current ratio of 2.10 times for the fiscal.

Outlook: Stable

Acuité believes that SGPL will maintain a 'Stable' outlook and benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and profitability margins. Conversely, the outlook may be revised to 'Negative' in case of sharp deterioration in the working capital cycle, thereby impacting its financial risk profile, particularly its liquidity.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	196.26	76.36
PAT	Rs. Cr.	9.55	3.77
PAT Margin	(%)	4.87	4.94
Total Debt/Tangible Net Worth	Times	0.83	0.20
PBDIT/Interest	Times	8.20	8.39

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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Jun 2022	Bills Discounting	Short Term	17.50	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	0.05	ACUITE A3 (Withdrawn)
	Packing Credit	Short Term	17.50	ACUITE A3 (Reaffirmed)
26 Mar 2021	Packing Credit	Short Term	17.50	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	17.50	ACUITE A3 (Reaffirmed)
30 Dec 2019	Letter of Credit	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	17.50	ACUITE A3 (Reaffirmed)
	Packing Credit	Short Term	17.50	ACUITE A3 (Reaffirmed)

02 May 2019	Packing Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	15.00	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 Credit	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)
	Bank 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)
	Bank Guarantee	Short Term	0.05	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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