

Press Release

Supreme Gums Private Limited

March 03, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.40	ACUITE BBB- Positive Assigned	-
Bank Loan Ratings	17.50	ACUITE BBB- Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	6.60	-	ACUITE A3 Assigned
Bank Loan Ratings	17.50	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	60.00	-	-

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 revised from '**Stable**' to '**Positive**'.

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.25.00 crore bank facilities of Supreme Gums Private Limited (SGPL). The Outlook is '**Positive**'.

Rationale for reaffirmation/revision in outlook

Rating has been reaffirmed and outlook has been revised from 'Stable' to 'Positive'. The reaffirmation and revision in outlook 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 (Audited). Company's financial risk profile is healthy although gearing has moderated in FY 2022 (Audited) from 0.20 times in FY 2021 to 0.83 times in FY 2022 (Audited) due to increase in total debt. In the current fiscal company's operating metrics have further improved with enhanced profitability hence on expectations of growth potential of the company going forward, Acuite has revised the outlook of the company to 'Positive'.

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. 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 promoter Mr. Naresh Kumar Jain has 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

The financial risk profile of the company stood healthy marked by healthy net worth, low gearing and strong debt protection metrics. The tangible net worth stood at Rs. 62.25 Cr as on 31st March 2022 (Audited) 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 (WCTL) loan, Rs. 39.90 Cr of short term borrowings, Rs. 1.79 Cr of unsecured loans and Rs. 0.02 Cr of CPLTD. The gearing (debt-equity) stood comfortable at 0.83 times in FY 2022 (Audited) and moderated from 0.20 times in FY 2021 on account of increase in short term borrowings. Interest Coverage Ratio stood strong at 8.46 times in FY 2022 and is expected to remain healthy in the near term. TOL/TNW moderated to 0.98 times in FY 2022 from 0.29 times in FY 2021.

Weaknesses

Moderately intensive working capital cycle

The working capital management of the company is moderately intensive marked by GCA days of 187 in FY 2022 (Audited). The debtor realization period stood at 108 days in FY 2022 (Audited). Inventory holding period for FY 2022 (Audited) stood at 44 days. Creditor days stood at 5 days in FY 2022. As a result, the average bank limit utilization for the 20 months' period between April 2021 to November 2022 stood at 70.84% on a consolidated level for the working capital facilities.

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. 10.82 Cr against maturing debt obligation of Rs. 0.09. Going forward company is expected to generate NCA of Rs. 39.57 Cr in FY 2023 against maturing debt obligation of Rs. 0.02 Cr and Rs. 44.07 Cr in FY 2024 against nil maturing debt obligation since repayment of working capital term loan will start from April 2024. Company maintained cash and bank position of Rs. 13.76 Cr in FY 2022 and had current ratio of 2.07 times for the fiscal.

Outlook: Positive

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

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	196.26	76.36
PAT	Rs. Cr.	9.87	3.77
PAT Margin	(%)	5.03	4.94
Total Debt/Tangible Net Worth	Times	0.83	0.20
PBDIT/Interest	Times	8.46	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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Aug 2022	Packing Credit	Long Term	17.50	ACUITE BBB- Stable (Reaffirmed)
	Bills Discounting	Short Term	17.50	ACUITE A3 (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	6.60	ACUITE A3 Assigned
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE BBB- Positive Reaffirmed Stable to Positive
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	6.60	ACUITE BBB- Positive Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	1.80	ACUITE BBB- Positive Assigned
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB- Positive Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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