

Press Release

Samruddhi Industries Limited

February 04, 2020



Rating Assigned, Reaffirmed & Withdrawn

Total Bank Facilities Rated*	Rs.68.06 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 35.00 crore bank facilities of SAMRUDDHI INDUSTRIES LIMITED (SIL). The outlook is '**Stable**'.

Further, Acuité has withdrawn the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 28.06 crore bank facilities of SIL.

Also, Acuité has assigned the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 22.18 crore bank facilities of SIL.

Maharashtra based, SIL was incorporated in 1992. The company is engaged in manufacturing of plastic products such as boxes, crates, vessels, bins, drums, kitchen essentials for household use; crates, drums, cans for industrial use.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SIL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SIL was incorporated in 1992. The directors of the company, Mr. Narayan Malu, Mr. Ramakant Malu, Mr. Omprakash Malu and Mr. Pramod Malu have an experience of more than two decades in the aforementioned line of business. The established track record of operations and experience of management has helped the company to develop healthy relationships with customers and suppliers.

Acuité believes that SIL will sustain its existing business profile backed by established track record of operations and experienced management.

- **Moderate financial risk profile**

SIL has moderate financial risk profile marked by low gearing and above average debt protection metrics. The net worth stood at Rs.53.78 crore as on 31 March, 2019 as against Rs.51.49 crore as on 31 March 2018 due to moderate accretion to reserves. The firm has followed a conservative financial policy in the past, the same is reflected through its gearing levels of 1.03 times as on March 31, 2018. The gearing improved marginally to 0.96 times as on March 31, 2019. Further, the interest coverage ratio stood at 1.98 times for FY2019 as compared to 2.55 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood at 1.32 times as on 31 March, 2019 as against 1.41 times as on 31 March, 2018.

Acuité believes that financial risk profile of the company is likely to remain moderate over the medium term, on account of low gearing and above average debt protection metrics.

Weaknesses

- **Working capital intensive nature of operations**

The company's operations are working capital intensive in nature as reflected in Gross Current Assets (GCA) of 250 days in FY2019 as against 257 days in FY2018. GCA days remained high due to high inventory holding period of 167 days in FY2019 as against 164 days in FY2018. The debt collection period stood at 49 days in FY2019 as compared to 53 days in FY2018.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of the high inventory holding period and the credit given to its customers.

- **Competitive and fragmented industry**

The company operates in a highly competitive industry characterized by low entry barriers that result in intense competition from the large number of organized and unorganized players present in the market. However, the risk is mitigated to an extent on account of established track record of operations. The material cost is the primary cost driver accounting for ~70 per cent of total sales. Further, the company's revenue and profitability are susceptible to the volatility in raw material prices.

Liquidity position: Stretched

SIL has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 5.98 crore for FY2019 with debt repayment obligation of Rs. 4.30 crore for the same period. The cash accruals of SIL are estimated to remain in the range of around Rs. 6.76 crore to Rs. 7.76 crore during 2020-22 against debt repayment obligations in the estimated range of around Rs.2.10 crore per year in the same period. The company's working capital operations are intensive marked by 250 gross current asset (GCA) days for FY2019. The average bank limit utilization for the past six months ended December 2019 stood at ~97.54 percent. The company maintains unencumbered cash and bank balances of Rs. 2.32 crore as on 31 March 2019. The current ratio stood at 1.43 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain stretched on account of low cash accrual against debt repayments over the medium term.

Rating Sensitivities:

- Substantial improvement in profitability margins.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Outlook: Stable

Acuité believes that SIL will maintain a 'Stable' outlook on account of experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	112.71	103.74
PAT	Rs. Cr.	2.84	5.01
PAT Margin	(%)	2.52	4.83
Total Debt/Tangible Net Worth	Times	0.96	1.03
PBDIT/Interest	Times	1.98	2.55

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
18-Dec-2019	Cash Credit	Long term	25.00	ACUITE BB+ Issuer not co-operating*
	Term Loan	Long term	22.06	ACUITE BB+ Issuer not co-operating*
	Working Capital Demand Loan	Long term	6.00	ACUITE BB+ Issuer not co-operating*
	Letter of Credit	Short term	15.00	ACUITE A4+ Issuer not co-operating*
22-Sep-2018	Cash Credit	Long term	25.00	ACUITE BB+ Issuer not co-operating*
	Term Loan	Long term	22.06	ACUITE BB+ Issuer not co-operating*
	Working Capital Demand Loan	Long term	6.00	ACUITE BB+ Issuer not co-operating*
	Letter of Credit	Short term	15.00	ACUITE A4+ Issuer not co-operating*

*The issuer did not co-operate; based on best available information.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00 (Reduced from Rs. 25.00 Cr)	ACUITE BB+/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	22.06	ACUITE BB+ (Withdrawn)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.18	ACUITE BB+/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB+/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
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About Acuité Ratings & Research:

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