

Press Release

Santoshi Barrier Film India Private Limited

February 21, 2019

Rating Reaffirmed and Withdrawn



Total Bank Facilities Rated*	Rs. 24.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 24.00 crore bank facilities of Santoshi Barrier Film India Private Limited (SBFI). The outlook is '**Negative**'.

Acuité has withdrawn the long term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs. 0.04 crore bank facilities of SBFI.

SBFI, part of the Santoshi group, was incorporated in 2011 by Mr. Dinesh Atkare, Mrs. Dipali Atkare and Mr. Madan Atkare (Directors). The company is engaged in the manufacturing of plastic lamination films and has a capacity of 15 tonnes per day with pan India presence across various states including Gujarat, Maharashtra, Uttar Pradesh, Madhya Pradesh and Punjab.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Santoshi Polymers (SP), Santoshi Barriers Film India Private limited (SBFIPL) and Raghav Agri-Tech (RA), hereinafter referred to as 'Santoshi group'. The consolidation is on account of the common management, strong operational and financial synergies and similarities in the lines of their businesses. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The group was established in 2003 by Mr. Dinesh Atkare and Mr. Amresh Shah who possess more than two decades of experience in the plastic industry. The promoters have been able to establish long term relations with major customers, namely, Amul, Gokul, Mother dairy and Ratna, among others.

• Moderate scale of operations

The group registered revenue of Rs.130.95 crore in FY2018 as against Rs.129.71 crore in FY2017 as against Rs.99.61 crore in FY2016. Further, from April 2018 to December 2018, the group registered revenue of Rs.~127.00 crore. Over the years, the company has built a wide network and healthy trade relations with domestic customers. Acuité expects revenue to be moderate in the near term on account of the continuous order book from reputed client base.

• Moderate financial risk profile

Santoshi Group has moderate financial risk profile marked by healthy net worth, moderate gearing and debt protection matrix. The net worth stood at Rs.63.10 crore as on March 31, 2018, which has witnessed sequential improvement from Rs.46.86 crore as on March 31, 2017. This includes unsecured loans of Rs.10.96 crore considered as quasi equity as on March 31, 2018. The gearing (debt-equity) has improved to 1.03 times as on 31 March, 2018 compared to 1.13 times as on 31 March, 2017. The total debt mainly includes term loans of Rs.37.57 crore and working capital borrowings of Rs. 27.31 crore as on 31 March, 2018. The Interest Coverage Ratio (ICR) stood at 2.02 times in FY2018 compared to 1.83 times in FY2017. The Debt Service Coverage Ratio (DSCR) stood at 1.49 times in FY2018 and 1.39 times in FY2017. The Total outstanding Liabilities to Total Net worth (TOL/TNW) decreased to 1.38 times as on 31 March, 2018 compared to 1.70 times as on 31 March, 2017. The net cash accruals to total debt stood low at 0.07 times as on March 31, 2018. The group's annual net

cash accruals (PAT + Depreciation) were ~Rs.4.73 crore for FY2018. Acuite expects that the sufficient revenue generation and profitability from the group for repayment of debt will remain a key monitorable.

Weaknesses

• Working capital intensive operations

The Santoshi group's operations are working capital intensive marked by high Gross Current Asset (GCA) of 199 days in FY2018 compared to 238 days in FY2017. The GCA days are mainly dominated by high debtor days of 126 days in FY2018 and 139 days in FY2017. The average bank limit utilisation for the past six months stood above 90 percent for the month ended December, 2018. Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Decline in profitability margins

The EBITDA margins of the group improved to 8.83 percent in FY2018 from 6.19 percent in FY2017 mainly on account of decrease in selling expenses. Further, the PAT margin declined to 1.62 per cent in FY2018 from 1.77 per cent in FY2017 on account of increase in interest and depreciation cost. The Indian flexible packaging industry is highly fragmented on account of the low capital intensity, low entry barriers and easy availability of raw materials affecting bargaining power with customers.

Liquidity Position:

Santoshi Group has moderate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.22 crore to Rs.4.73 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.1.12 crore as on 31 March, 2016 and Rs.1.96 crore as on 31 March, 2018. The group is expected to improve the operational performance in FY2019 with synergy from Raghav Agri-Tech to payoff significant upcoming debt obligations. The operations are moderately working capital intensive as marked by gross current asset (GCA) of 199 days in FY 2018 as compared to 238 days in FY 2017. The cash credit limit in the group remains utilized at ~90 percent during the last six months period ended December, 2018. The current ratio of the group stands at 1.48 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account elongation in working capital.

Outlook: Negative

Acuite has maintained the outlook to 'Negative' on account of no significant improvement in revenues but a significant upcoming debt obligation and dependency on optimal capacity utilization of Raghav Agri-tech. This is likely to continue over the medium term. The rating may be downgraded in case the group exhibits lower than expected revenue growth and further deterioration in profitability. Conversely, the outlook will be revised to 'Stable' in case of significant and sustainable improvement in revenues and accruals coupled with potential expectation of synergy from Raghav Agri-tech and improvement in financial risk profile from existing levels.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	130.95	129.71	99.61
EBITDA	Rs. Cr.	11.56	8.03	7.70
PAT	Rs. Cr.	2.12	2.29	2.19
EBITDA Margin	(%)	8.83	6.19	7.73
PAT Margin	(%)	1.62	1.77	2.20
ROCE	(%)	7.80	8.48	20.74
Total Debt/Tangible Net Worth	Times	1.03	1.13	0.91
PBDIT/Interest	Times	2.02	1.83	1.84
Total Debt/PBDIT	Times	5.57	6.56	3.92
Gross Current Assets (Days)	Days	199	238	247

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
09-Jan-2018	Cash Credit	Long Term	19.25	ACUITE BBB- / Negative (Reaffirmed)
	Term Loan	Long Term	0.04	ACUITE BBB- / Negative (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	1.71	ACUITE BBB- / Negative (Assigned)
29-Sep-2016	Cash Credit	Long Term	19.25	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.75	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)

*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	19.25	ACUITE BBB- / Negative (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE BBB- (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.71	ACUITE BBB- / Negative (Reaffirmed)

CC limits include sublimit letter of credit of Rs.3.50 crore and Bank Guarantee of Rs.0.50 crore.

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About Acuité Ratings & Research:

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