

Press Release

SANTOSHI POLYMERS

09 January, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Negative
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 14.00 crore bank facilities of SANTOSHI POLYMERS (SP). The outlook is '**Negative**'.

The Daman-based SP, part of the Santoshi group was established in 2003 by Partners Mr. Dinesh Atkare and Mr. Amresh Shah. The firm is engaged in the manufacture of plastic lamination films and has capacity of 15 tonnes per day. The firm has pan India presence across Gujarat, Maharashtra Uttar Pradesh, Madhya Pradesh and others.

Outlook Revised

SMERA has revised the outlook to 'Negative' from 'Stable' on account of decline in profitability margins and net cash accruals vis-a-vis the initial expectation. This is likely to continue over the medium term. Any further decline in profitability would result in downward revision in the rating. Conversely, significant and sustainable improvement in the profitability and financial risk profile from existing levels could cause a revision of outlook to Stable.

Key Rating Drivers

Strengths

- **Established track record of operations, 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 Ratna among others.

- **Moderate scale of operations**

The group registered revenue of Rs. 129.71 crore in FY2017 as against Rs. 99.61 crore in FY2016 as against Rs. 78.33 crore in FY2015. Further, from April 2017 to September 2017, the group registered revenue of Rs. 77.00 crore. SMERA expects revenue to be moderate in the near term on account of the continuous order book from a reputed clientbase.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by net worth of Rs. 41.55 crore as on 31 March, 2017 compared to Rs. 34.01 crore as on 31 March, 2016. This includes unsecured loans of Rs. 10.74 crore considered as quasi equity. The adjusted gearing (debt-equity) deteriorated to 1.51 times as on 31 March, 2017 compared to 0.78 times as on 31 March, 2016. The total debt mainly includes term loans of Rs.16.33 crore and working capital borrowings of Rs. 30.28 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 1.83 times in FY2017 compared to 1.84 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.39 times in FY2017 and 1.31 times in FY2016. The Total outstanding Liabilities to Total Net worth (TOL/TNW) increased to 1.92 times as on 31 March, 2017 compared to 1.48 times as on 31 March, 2017. Going forward, SMERA expects the financial risk profile to improve marginally in the

medium term on account of the repayment of existing term loans and absence of further debt funded capex plans.

Weaknesses

• Working capital intensive business

The Santoshi group's operations are working capital intensive marked by high Gross Current Asset (GCA) of 227 days in FY2017 compared to 247 days in FY2016. The GCA days are mainly dominated by high debtor days of 139 days in FY2017 and 146 days in FY2016. The average bank limit utilisation for the past six months stood at 90 percent. SMERA 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 declined to 6.19 percent in FY2017 from 7.73 percent in FY2016 mainly on account of increase in selling expenses. Further, the PAT margin also declined to 1.77 per cent in FY2017 from 2.20 per cent in FY2016 on account of increase in interest 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.

Analytical Approach

SMERA has consolidated the business and financial risk profiles of Santoshi Polymers (SP) and Santoshi Barriers Film India Private limited (SBFIPL) hereinafter referred to as the Santoshi group. The consolidation is on account of the common management, strong operational and financial synergies and similarities in the lines of their businesses.

Outlook: Negative

SMERA believes that the outlook of Santoshi polymers will remain 'Negative' over the medium term. The rating may be downgraded in case the company exhibits further decline in profitability causing further deterioration of financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of significant and sustainable improvement in revenues and accruals resulting in improved Debt protection indicators.

About the Group

The Gujarat-based Santoshi Group was established in 2003 by Mr. Dinesh Atkare and others to manufacture facility for three layer and seven layer plastic films. The installed capacity stands at 30 tonnes per day. The group comprises Santoshi Polymers established in 2003 and Santoshi Barrier Film India Private Limited (SBFIPL) incorporated in 2011.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	129.71	99.61	78.33
EBITDA	Rs. Cr.	8.03	7.70	6.33
PAT	Rs. Cr.	2.29	2.19	1.60
EBITDA Margin	(%)	6.19	7.73	8.08
PAT Margin	(%)	1.77	2.20	2.04
ROCE	(%)	9.29	12.85	24.38
Total Debt/Tangible Net Worth	Times	1.15	0.78	1.01
PBDIT/Interest	Times	1.83	1.84	1.81
Total Debt/PBDIT	Times	5.93	3.37	3.38
Gross Current Assets (Days)	Days	227	247	245

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29-Sep, 2016	Cash Credit	Long Term	INR 8.5	SMERA BBB- / Stable
	Letter of Credit	Short Term	INR 5.4	SMERA A3
	Bank Guarantee	Short Term	INR 0.1	SMERA A3

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	SMERA BBB- / Negative
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	0.40	SMERA A3

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ABOUT SMERA

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