

Press Release

SONARG PLASTICS PRIVATE LIMITED (SPPL)

16 April, 2018



Rating Reaffirmed & Assigned

Total Bank Facilities Rated	Rs. 9.15 Cr. (Enhanced from Rs. 7.15 cr)
Long Term Rating	SMERA BBB-/ Stable (Reaffirmed)
Short Term Rating	SMERA A3 (Assigned)

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) on the Rs. 7.15 Crore bank facilities of Sonarg Plastics Private limited. Further, SMERA has also assigned short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 2.00 crore bank facilities. The outlook is "**Stable**".

Sonarg Plastics Private Limited is incorporated in 2007 with Mr. Surekh Desai, Mr. Hetal Desai, Mr. SonalAgrawala as Directors and Mr. Kamal Agrawala as CEO having more than a decade of experience. The company is engaged in the business of manufacturing of PVC compound for Cables and wires. The company has its registered office located at Ahmedabad and only one manufacturing facility located at Silvassa, Dadar& Nagar Haveli. The installed capacity is 9000 MT/ annum.

List of key rating drivers and their detailed description

Strengths

Experienced management and established track record of operations

Sonarg Plastics Private Limited (SPPL) was incorporated in the year 2007 with Mr. Surekh Desai, Mr. Hetal Desai, Mr. SonalAgrawala as Directors and Mr. Kamal Agrawala as CEO having more than a decade of experience in plastic industry which has helped them to establish healthy relations in the market with various customers.

Healthy financial risk profile

SPPL has a healthy financial risk profile marked by net worth of Rs. 10.46 crore as on 31 March, 2017 compared to Rs. 8.73 crore as on 31 March, 2016. It includes unsecured loan of Rs. 6.38 crore as on 31st March, 2017 which is considered as quasi equity. The gearing improved to 0.47 times as on 31 March, 2017 from 0.56 times as on 31 March, 2016. The total debt of Rs. 4.89 crore mainly comprises of working capital borrowings and long term loan as on 31 March, 2017. Further the company is not planning to avail any future term loans. The interest coverage ratio stood at 1.99 times in FY2017 as against 2.05 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.99 times as on 31st March, 2017 as against 1.12 times in FY2016. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.24 times as on 31st March, 2017 as against 0.12 times in FY2016. Going forward, SMERA expects the company to maintain its financial risk profile and improve its net worth in the absence of major debt funded capex plan.

Moderate growth in revenue and profitability

SPPL has recorded revenues of Rs. 49.60 crore in FY2017 as against Rs. 46.06 crore in FY2016 as against Rs. 35.39 crore in FY2015. Further during April 2017 to December 2017 the company has recorded revenues of Rs. 41.52 Crore. The operating margins improved to 6.02 percent in FY2017 as against 5.49 percent in FY2016 also the profit after tax (PAT) margins improved to 1.93 percent in FY2017 as against 0.81 percent in FY2016. Going forward, SMERA expects the revenue growth to be moderate in near to medium term backed by the healthy relations with various customers.

Weaknesses

Susceptibility of margins to raw material price fluctuations

SPPL operates in Plastic Processing Industry; having major raw material as PVC resin which comprises of 50% of the total cost. The raw material prices vary with Crude oil prices and hence margins are exposed to volatility.

Competitive and fragmented industry

SPPL manufactures specific product for cable industries and is dominated by a number of small as well large players in the industry which can have impact on the bargaining power with the customers.

Analytical approach

SMERA has considered the standalone business and financial risk profiles of Sonarg Plastics Private Limited to arrive at the rating.

Applicable Criteria

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

Outlook: Stable

SMERA believes SPPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	49.60	46.06	35.39
EBITDA	Rs. Cr.	2.99	2.53	1.77
PAT	Rs. Cr.	0.95	0.37	0.72
EBITDA Margin (%)	(%)	6.02	5.49	5.27
PAT Margin (%)	(%)	1.93	0.81	2.02
ROCE (%)	(%)	19.78	17.61	29.12
Total Debt/Tangible Net Worth	Times	0.47	0.56	1.30
PBDIT/Interest	Times	1.99	2.05	2.49
Total Debt/PBDIT	Times	1.55	1.94	3.65
Gross Current Assets (Days)	Days	121	117	125

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
Mar 29, 2018	Cash Credit	Long Term	6.75 Cr	SMERA BBB- / Stable (Assigned)
Mar 29, 2018	Term Loan	Long Term	0.40 Cr	SMERA BBB- / Stable (Assigned)

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not available	Not available	Not available	6.75 Cr	SMERA BBB- / Stable (Reaffirmed)
Term Loan	Not available	Not available	Not available	0.40 Cr	SMERA BBB- / Stable (Reaffirmed)
Proposed Letter of credit	Not available	Not available	Not available	2.00 Cr	SMERA A3 (Assigned)

Note on complexity levels of the rated instrument: <https://www.smerra.in/criteria-complexity-levels.htm>

Contacts

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ABOUT SMERA

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