Press Release

Sonarg Plastics Private Limited

July 11, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.15 Cr. (Enhanced from Rs.9.15 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable
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)** on the Rs. 10.15 crore bank facilities of SONARG PLASTICS PRIVATE LIMITED (SPPL). The outlook is **'Stable'**.

Incorporated in 1999, SPPL is a Gujarat-based company promoted by Mr. Surekh Desai, Mrs. Hetal Desai and Mrs. Sonal Agrawala. The company is engaged in manufacturing of PVC compound for cables and wires. The company has its manufacturing facility located at Silvassa in Dadar & Nagar Haveli with an installed capacity of 12000 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

  Incorporated in 2007, SPPL is engaged in manufacturing of PVC compound for cables and wires. Before promoting SPPL. the promoters possess a decade of experience from other chemical manufacturing company. Mr. Surekh Desai, Mrs. Hetal Desai and Mrs. Sonal Agrawala possess experience of more than two decades in this industry. Acuité believes that SPPL will benefit from experienced management which will help the firm to maintain long standing relations with its customers such as KEC International Limited, SBEE Cable India Limited, ADILEC Systems and HPL Electric Limited among others and suppliers.

- **Healthy financial risk profile**

  The financial risk profile of the company is healthy marked by tangible net worth of Rs.11.77 crore as on 31 March, 2018 as against Rs.10.46 crore as on 31 March, 2017. The net worth includes unsecured loans of Rs.6.60 crore in FY2018 from promoters which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing (debt-equity) remained comfortable at 0.38 times as on March 31, 2018 against 0.47 times as on March 31, 2017. The total debt outstanding of Rs.4.46 crore as on 31 March, 2018 consists of working capital borrowing of Rs.4.07 crore and term loan of Rs.0.39 crore. The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) at 2.16 times and 1.64 times respectively in FY2018. Total outside liabilities to tangible net worth stood at 1.15 times as on 31 March, 2018 as against 0.99 times as on 31 March, 2017. The increase in TOL/TNW is majorly on account of increase in trade payables as on 31 March, 2018. Acuité believes that absence of any further significant capex plans is expected to support the financial risk profile in near to medium term.

- **Modest scale of operations and fluctuations in profitability**

  The company's revenue grew at a CAGR of ~5.3 percent over the last three years through 2017-18. SPPL has modest scale of operations marked by operating income of Rs.51.07 crore in FY2018 as against Rs.49.60 crore in FY2017 and Rs.46.06 crore in FY2016. Further, the company booked Rs.62.9 crore of revenue for FY2019 (Provisional). Further, the company's operating margins stood fluctuating at 5.00 percent in FY2018 as against 6.02 percent in FY2017 and 5.49 percent in FY2016. Further, the company reported Profit after Tax (PAT) margins of 2.12 percent in FY2018 as against 1.93 percent in FY2017 and 0.81 percent in FY2016. Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

Weaknesses

- **Moderate working capital operations**

  The company has moderate working capital operations marked by Gross Current asset (GCA) of 153 days for FY2018 as against 121 days for FY2017. This is majorly on account of collection period of 67 days in FY2018 as against 69 days in FY2017. The inventory holding period stood at 37 days in FY2018 as against 18 days in FY2017. Acuité believes that the ability of the firm to efficiently manage its working capital requirements will remain key rating sensitivity.

- **Susceptibility of margins to raw material price fluctuation**

  The fluctuation in operating margins is marked by fluctuations in raw material prices. The basic raw materials required by SPPL is PVC resin which comprises 50 percent of the total raw material cost. This raw material is crude oil derivatives whose prices are subject to volatility in line with those of global crude oil prices. Therefore, margins are susceptible to fluctuations in raw material price.

Liquidity position:

The company has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. SPPL generated cash accruals of Rs.1.32-0.9 crore during the last three years through 2016-18, while the maturing debt obligations were in the range of Rs.0.35 crore over the same period. Further, the cash accruals are expected to be at Rs.1.9-2.50 crore during 2019-21, while its repayment obligations are estimated to be nil. SPPL maintains cash and bank balances of Rs.4.07 crore as on March 31, 2018. The cash credit limit in SPPL remains utilised at 20 per cent during the last 6 months period ended June, 2019. The current ratio stood comfortable at 1.71 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to be adequate over the medium term on account of no capex and no long-term debt obligation.

Outlook: Stable

Acuité believes that SPPL's outlook will remain 'Stable' over the medium term from its experienced management with healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	51.07	49.60	46.06
EBITDA	Rs. Cr.	2.55	2.99	2.53
PAT	Rs. Cr.	1.08	0.95	0.37
EBITDA Margin	(%)	5.00	6.02	5.49
PAT Margin	(%)	2.12	1.93	0.81
ROCE	(%)	16.47	19.78	17.61
Total Debt/Tangible Net Worth	Times	0.38	0.47	0.56
PBDIT/Interest	Times	2.16	1.99	2.05
Total Debt/PBDIT	Times	1.54	1.55	1.94
Gross Current Assets (Days)	Days	153	121	117

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-17.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

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
16-Apr-2018	Cash Credit	Long Term	6.75	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	0.40	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
29-Mar-2018	Cash Credit	Long Term	6.75	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	0.40	ACUITE BBB- / Stable (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	9.75*	ACUITE BBB- / Stable (Reaffirmed)
Proposed Non-Fund based facility	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A3 (Reaffirmed)

Cash Credit of Rs.9.75 crore includes sublimit of Letter of Credit to the extent of Rs.9.75 crore, Bank Guarantee to the extent of Rs.0.50 crore and WCDL to the extent of Rs.7.80 crore.

Contacts

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