

Press Release

SML Films Limited

June 15, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 152.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 152.00 crore bank facilities of SML Films Limited. The outlook is '**Stable**'.

The Surat-based, SML Films Limited was incorporated in 2002. SML is promoted by Mr. Pragnesh Jariwala and family. SML is engaged in the manufacturing of a varied range of products such as polyester film, metallised and lacquered polyester films, metallised yarn, jari kasab and jari powder which find application in packaging (both food and non-food items) as well as textile industry. Further, the company ventured into backward integration and set-up a plant for manufacturing of BOPET films during FY2012. In FY2017, SML undertook capacity expansion project for second line of BOPET films manufacturing with an installed capacity of 66,000 MTPA with total investment outlay of nearly Rs.180 crore, whereby the commercial production started from March, 2017.

Key Rating Drivers

Strengths

- **Experienced management**

SML Films Limited (erstwhile Surat Metalics Limited) was incorporated in 2002. The company was initially engaged in trading of polyester films. Later in 2012, the company backward integrated and started the manufacturing of polyester films, metallised and lacquered polyester among others. The company is promoted by Mr. Pragnesh Jariwala who is the Founder, Promoter and Managing Director of the company. Mr. Pragnesh Jariwala possesses industry experience of over two decades and looks after overall operation of the company. Mr. Ishwarlal Jariwala and Mr. Dharmesh Jariwala, also the directors of the company has been looking after the production activities of the company. Acuite believes that SML will benefit from its established position in the packaging industry, experienced management and established relationships with customers and suppliers.

- **Improvement in revenue**

The revenue of the company has grown at a CAGR of 24 percent. The revenue stood at Rs.352.56 crore in FY2016-17 as against Rs.319.02 crore in the previous year. Further, the revenue grew by ~73 percent in FY2018 (Provisional) and stood at Rs.610.89 crore. The improvement in revenue is on the back of capital expenditure carried out by the company. With capital expenditure, the installed capacity of BOPET Films has increased to 66,000 MTPA from 31,500 MTPA and Metallised Polyester Film of 32,200 MTPA from 16,700 MTPA. The company also has a diversified customer base with top 10 customers contributes to ~14 percent of total sales.

- **Healthy financial risk profile**

The financial risk profile of SML is healthy marked by net worth of Rs.195.72 crore as on 31 March, 2018 (Provisional) as against Rs.158.78 crore in the previous year. The gearing (debt-equity) stood at 1.14 times as on 31 March, 2018 (Provisional) as against 1.63 times as on 31 March, 2017. The total debt as on 31 March, 2018 of Rs.222.82 crore majorly comprises of term loan of Rs.133.28, unsecured loans of Rs.14.29 crore and working capital facility of Rs.75.26 crore. Interest Coverage Ratio (ICR) stood at 9.33 times for FY2018 (Provisional) as against 6.48 times for FY2017. DSCR stood at 2.19 times for FY2018 (Provisional) as against 2.30 times for FY2017. Total outside Liabilities to Tangible Net Worth stood 1.35 times as on 31 March, 2018 (Provisional) as against 1.94 times as on 31 March, 2017. Net cash accrual

to total debt stood at 0.39 times for FY2018 (Provisional) as against 0.22 times for FY2017. Acuite believes that the financial risk profile to remain healthy on the back of healthy net cash accruals and in absence of any major debt funded capex.

• Efficient working capital management

The working capital of SML is efficiently managed marked by Gross Current Asset (GCA) days of 82 for FY2018 (Provisional) as against 142 in the previous year. This is on account of decrease in inventory days which stood at 18 for FY2017 as against 52 for FY2016, further debtor days stood comfortable at 61 for FY2017. The working capital facility is utilised at ~85 percent for last 6 months ending May 2018. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

Weaknesses

• Susceptibility of profitability margins to fluctuations in prices of raw material and foreign exchange fluctuation

The basic raw materials required by SML such as plastic resins, granules and powder which are crude oil derivatives. The prices of the commodities are subject to volatility in line with those of global crude oil prices. The basic raw materials formed nearly 67 percent of its total sales. Further, SML partly imports its raw material from Dubai, USA, and Africa among others. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates. However, SML generally enters into forward covers which partially mitigate the forex risk.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of SML Films Limited to arrive at this rating.

Outlook: Stable

Acuite believes that SML will maintain a 'Stable' outlook over the medium term on the back of its experienced management and established presence in the industry. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins, capital structure and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue and profit margins or deterioration in the capital structure or liquidity position owing to significant debt funded capex or working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	610.89	352.56	319.02
EBITDA	Rs. Cr.	115.08	77.04	72.83
PAT	Rs. Cr.	36.97	31.59	20.85
EBITDA Margin	(%)	18.84	21.85	22.83
PAT Margin	(%)	6.05	8.96	6.53
ROCE	(%)	15.07	15.14	18.32
Total Debt/Tangible Net Worth	Times	1.14	1.63	0.91
PBDIT/Interest	Times	9.33	6.48	6.04
Total Debt/PBDIT	Times	1.93	3.34	1.59
Gross Current Assets (Days)	Days	82	142	76

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	25.30	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	49.00	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	42.70	ACUITE A- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+

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About Acuité Ratings & Research:

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