Press Release

SML Films Limited

July 25, 2019

Rating Withdrawn and Reaffirmed

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

Acuité has reaffirmed 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'**.

Acuité has withdrawn long-term rating of **'ACUITE A-' (read as ACUITE A minus)** and short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.25.30 crore bank facilities of SML FILMS LIMITED.

The Surat-based, SML Films Limited (SFL) was incorporated in 2002. SML is promoted by Mr. Pragnesh Jariwala and family. SFL is engaged in the manufacturing of varied range of products such as polyester film, metallised and lacquered polyester films, metallised yarn, jari kasab and jari powder which finds 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, SFL undertook capacity expansion project for second line of BoPET films manufacturing with an installed capacity of 66,000 MTPA. Currently, the company is undergoing a capital expenditure for installation of third BoPET lines and the capacity is expected to be ~1,00,000 MTPA. Commercial operations are expected to start around March - April, 2020.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of SFL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  SFL started its operations in 2002 under the leadership of 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 the overall operations of the company. Mr. Ishwarlal Jariwala and Mr. Dharmesh Jariwala, Directors of the company, have been looking after the production activities of the company. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. SFL has managed to diversify its customer base with top 10 customers accounting for ~36 percent of total sales.

  Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers.

- **Healthy revenue growth along with healthy profitability**

  The revenue of the company has grown at a CAGR of 24 percent for last four years ending FY2019. The revenue stood at Rs.609.94 crore in FY2017-18 as against Rs.352.56 crore in the previous year. Further, the revenue grew by ~32 percent in FY2019 (Provisional) and stood at Rs.806.72 crore. The improvement in revenues are on the back of higher utilisation of existing BoPET lines. Going ahead, Acuité believes that the revenues of SFL will improve on account of installation of new BoPET lines. The operating margins of the company stood at 20.58 percent in FY2019 (Provisional) as against 18.93 percent in FY2018.

  Acuité believes that the revenues of the company will improve in near to medium term on account of higher capacity utilisation from the new lines. However, the revenues in FY2020 are expected to be around same levels on account of 100% capacity utilisation.

- **Healthy financial risk profile**

The financial risk profile of SFL is healthy marked healthy net worth, coverage indicators and debt protection metrics of the company. The tangible net worth of the company stood at Rs.258.89 crore as on 31 March, 2019 (Provisional) as against Rs.190.35 crore in the previous year. The gearing (debt - equity) improved to 0.61 times as on 31 March, 2019 (Provisional) as against 1.17 times as on 31 March, 2018. The total debt as on 31 March, 2019 of Rs.158.69 crore majorly comprises term loan of Rs.96.48, unsecured loans of Rs.1.90 crore and working capital facility of Rs.60.31 crore. The coverage indicators are healthy marked by Interest Coverage Ratio (ICR) which stood at 27.44 times for FY2019 (Provisional) as against 7.53 times for FY2018. Debt Servicing Coverage Ratio (DSCR) improved to 6.40 times for FY2019 (Provisional) from 1.97 times for FY2018. Total outside Liabilities to Tangible Net Worth (TOL/TNW) improved to 0.91 times as on 31 March, 2019 (Provisional) from 1.43 times as on 31 March, 2018. Net cash accrual to total debt (NCA/TD) improved to 0.79 times for FY2019 (Provisional) from 0.36 times for FY2018.

The company is undergoing a capital expenditure in FY2020. The company is installing a third BoPET line at its manufacturing unit based at Surat (Gujarat) and increasing its installed capacity. This is majorly for giving a healthy revenue and improvement in margins in coming years. Considering the current debt funded capex, the additional debt funded capex is not likely to significantly impact the financial risk profile of the company in near to medium term. Any higher-than-expected deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

- **Efficient working capital management**

The working capital of SFL is efficiently managed marked by Gross Current Asset (GCA) days of 81 for FY2019 (Provisional) as against 85 in the previous year. The debtor days stood comfortable at 51 for FY2019 (Provisional) as against 61 in FY2018. Further, inventory days stood at 17 for FY2019 (Provisional) as against 18 for FY2018. The average bank limit utilisation stood at ~65 percent for last six months ending June 2019. Acuité believes, 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 SFL such as plastic resins granules and powder 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, SFL 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, SFL generally enters into forward covers which partially mitigate the forex risk.

Liquidity Position:

SFL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.124.97 in FY2019 (provisional), Rs.81.20 crore in FY2018 and Rs.57.23 crore in FY2017, while its maturing debt obligation was Rs.13.78 crore in FY2019 (Provisional), Rs.14.34 crore in FY2018 and Rs.33.27 crore in FY2017. The company's working capital operations are efficient as marked by gross current asset (GCA) days of 81 in FY 2019 (Provisional). Further, the reliance on working capital borrowings is low, the cash credit limit in the company remains utilised at ~65 percent during the last 6 months' period ended June, 2019. The company maintains unencumbered cash and bank balances of Rs.2.33 crore as on March 31, 2019 (Provisional). The current ratio of the company stood at 1.40 times as on March 31, 2019 (Provisional). Acuité believes that the company's ability to manage its liquidity will be key rating sensitivity as the company is undergoing an expansion in capacity for BoPET lines.

Outlook: Stable

Acuité believes that SFL 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	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	806.72	609.94	352.56
EBITDA	Rs. Cr.	166.04	115.49	76.18
PAT	Rs. Cr.	69.43	30.71	31.59
EBITDA Margin	(%)	20.58	18.93	21.61
PAT Margin	(%)	8.61	5.03	8.96
ROCE	(%)	25.62	15.25	14.89
Total Debt/Tangible Net Worth	Times	0.61	1.17	1.63
PBDIT/Interest	Times	30.42	9.31	6.90
Total Debt/PBDIT	Times	0.95	1.91	3.38
Gross Current Assets (Days)	Days	81	85	142

Status of non-cooperation with previous CRA (if applicable)
None.

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
15-Jun-2018	Proposed Bank Facility	Long Term	42.70	ACUITE A- / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	25.30	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	49.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A- / 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
Term loans	Not Applicable	Not Applicable	Not Applicable	25.30	ACUITE A- / Stable (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	49.00*	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00**	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00#	ACUITE A- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A- / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)
Proposed Bank guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)

**sublimit of FNCR loan of Rs.60.00 crore, Inland/Fgn loan of Rs.40.00 crore, bills discounting against LC is Rs.30.00 crore, PCFC of Rs.30.00 crore and ILC/FLC of Rs.10.00 crore.*
***sublimit of EPC/PCFC/FBD/FBP of Rs.20.00 crore, LC of Rs.15.00 crore.*
#sublimit of WCDL of Rs.20.00 crore, EPC.PCFC of Rs.20.00 crore, BD/FDB/FBP of Rs.20.00 crore, FCNR of Rs.20.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Saurabh Rane Analyst - Rating Operations Tel: 02249294044 saurabh.rane@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.