Acuite
RATINGS & RESEARCH

Press Release

SML Films Limited

September 07, 2020

Rating Upgraded and Withdrawn

Total Bank Facilities Rated*	Rs. 140.00 Cr. (Reduced from Rs.152.00 crore)
Long Term Rating	ACUITE A / Outlook: Stable (Upgraded from ACUITE A-/Stable)
Short Term Rating	ACUITE A1 (Upgraded from ACUITE A2+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating from '**ACUITE A-' (read as ACUITE A minus)** to '**ACUITE A' (read as ACUITE A)** and the short-term rating from '**ACUITE A2+' (read as ACUITE A two plus)** to '**ACUITE A1' (read as ACUITE A one)** on the Rs.140.00 crore bank facilities of SML Films Limited (SML). The outlook is **'Stable'**.

Further, Acuité has upgraded and withdrawn the long-term rating of '**ACUITE A' (read as ACUITE A)** on the Rs.79.00 crore bank facilities of SML.

The rating upgrade is on account of improvement in business risk profile, thereby improving the profitability of the company, strong liquidity and successful completion of capex. The operating margin improved to 23.78 per cent in FY2020 from 19.78 per cent in FY2019. Further, Profit after Tax (PAT) margins improved to 12.39 per cent in FY2020 as against 8.28 per cent in FY2019. This is majorly because the company has a strong position in the market and is able to pass on the cost to its customers. The cash credit facility has not been utilised for the past 6 months, which signifies the strong liquidity of the company. Company has installed 3rd BoPET line and commercial operations have started from March, 2020. This has increased the capacity from 60000 MTPA to 100000 MTPA. Scale of operations is expected to increase in FY2021 at the back of the new BoPET line been installed. The company has registered revenues of around Rs.280.00 crore for Q1 of FY2021.

Incorporated in 2002, SML is a Surat-based company engaged in manufacturing of a varied range of products such as polyester film, metallized and lacquered polyester films, metallized yarn, jari kasab and jari powder which finds application in packaging, printing and lamination, textile yarn, electrical insulation, decorative applications, etc. The day to day operations is managed by Mr. Pragnesh Jariwala and family. Company has installed 3rd line of BoPET and commercial operations have started from March, 2020. The capacity has increased from 66000 MT to 100000 MT.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SML to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience Management**

  SML Films 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, metallized 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 has industry experience of over two decades and looks after the overall operation of the company. Other directors include Mr. Ishwarlal Jariwala and Mr. Dharmesh Jariwala, who have been looking after the production activities of the company.

  The extensive experience of the directors has helped the company to maintain a healthy relationship with its customers and suppliers. The key customers of the company include names like Huhtamaki PPL Limited, Jhaveri Flexo India Private Limited amongst others with no major concentration in revenues. The top 10 customers contribute to ~34 percent of total sales. The key suppliers include names like Shree Durga Syntex Private Limited, Garden Silk Mills Ltd, to name a few.

Acuité believes that SML will benefit from its established position in the packaging industry, experienced management and established relationships with customers and suppliers.

- **Healthy scale of operations and profitability**

The revenue of the company has grown at a CAGR of 14.62 percent. The revenue stood at Rs.803.87 crore in FY2019 as against Rs. 609.94 crore in the previous year. Further, the revenue remained stagnant in FY2020 and stood at Rs.801.36 crore. This is majorly because of the reduction in the prices of crude oil. However, operating margin improved to 23.78 per cent in FY2020 from 19.78 per cent in FY2019. Further, Profit After Tax (PAT) margins improved to 12.39 per cent in FY2020 as against 8.28 per cent in FY2019. This is majorly because the company has a strong position in the market and is able to pass on the cost to its customers.

Acuité believes that the scale of operations will improve in FY2021 at the back of commencement of operations by the 3rd line of BoPET from March, 2020 along with no impact of COVID-19 as the products fall under essential goods category.

- **Healthy financial risk profile**

The financial risk profile of SML is healthy marked by healthy net worth, healthy debt protection measures and low gearing. The tangible networth stood at Rs.356.29 crore as on 31 March, 2020 as against Rs.256.98 crore in the previous year.

The company follows a conservative leverage policy as reflected by its peak gearing of 1.17 times as on 31 March 2018. The gearing (debt-equity) stood at 0.68 times as on 31 March, 2020 as against 0.62 times as on 31 March, 2019. The total debt as on 31 March, 2020 of Rs.241.37 crore majorly comprises of a term loan of Rs.231.76, unsecured loans of Rs.1.73 crore and working capital facility of Rs.7.88 crore. The gearing is expected to remain low in future due to expectations of healthy net worth.

In FY2020, net cash accruals increased to Rs. 152.87 crore as against Rs. 13.78 crore in FY2019. The net cash accruals have increased on account of the increase in net profits. The improving profitability coupled with low gearing levels has resulted in healthy debt protection metrics, with interest coverage at 36.06 times for FY2020 and Debt Servicing Coverage Ratio (DSCR) at 8.27 times for FY2020. Total outside Liabilities to Tangible Net Worth (TOL/TNW) improved to 0.88 times as on 31 March, 2020 from 0.94 times as on 31 March, 2019. Net cash accrual to total debt (NCA/TD) stood at 0.63 times for FY2020 as against 0.71 times for FY2019. Acuité expects the coverage indicators of SML to remain healthy on account of the expansion of profitability margins.

Acuité believes that the financial risk profile to remain healthy on the back of healthy net cash accruals and improving business risk profile.

- **Comfortable working capital management**

The working capital operations are comfortably marked by Gross Current Asset (GCA) days of 79 for FY2020 as against 83 in the previous year. Inventory day stood at 18 for FY2020 as against 15 for FY2019; further debtor days stood at 55 for FY2020 as against 51 in FY2019. The working capital facility is not utilised for the last 6 months ending July, 2020. 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.

Liquidity Position: Strong

SML has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.81.20 to 152.87 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.14.30 to 21.90 crore over the same period. The company's working capital operations are comfortable as marked by Gross Current Asset (GCA) days of 79 in FY2020. Further, the reliance on working capital borrowings is low; the cash credit limit has remained unutilized during the last 6 month's period ended July, 2020. The company maintains unencumbered cash and bank balances of Rs.0.29 crore as on March 31, 2020. The current ratio of the company stands healthy at 2.32 times as on March 31, 2020.
Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité 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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant deterioration in financial risk profile and working capital operations of the company.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	801.36	803.87
Profit after tax (PAT)	Rs. Crore	99.30	66.58
PAT margin	%	12.39	8.28
Total debt / Tangible Net worth	Times	0.68	0.62
PBDIT / Interest	Times	36.06	17.95

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-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of instrument / facilities	Term	Amount (Rs.)	Ratings/Outlook
25-Jul-2019	Term Loan	Long Term	25.30	ACUITE A- (Withdrawn)
	Cash Credit	Long Term	49.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	18.00	ACUITE A-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
15-Jun-2018	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)
	Proposed Bank Facility	Long Term	42.70	ACUITE A-/Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (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	49.00	ACUITE A (Upgraded and Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A (Upgraded and Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 (Upgraded from ACUITE A2+)

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About Acuité Ratings & Research:
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