Press Release

SML Films Limited

September 06, 2021

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.215.00 Cr. (Enhanced from Rs.140.00 Cr)
Long Term Rating	ACUITE A+/Stable (Assigned and Upgraded from ACUITE A/Stable)
Short Term Rating	ACUITE A1+ (Assigned and Upgraded from ACUITE A1)

**Refer Annexure for details*

Rating Rationale

Acuité has assigned and upgraded its long-term rating of to **'ACUITE A+' (read as ACUITE A plus)** from **'ACUITE A' (read as ACUITE A)** and short term rating to **'ACUITE A1+' (read as ACUITE A One plus)** from **'ACUITE A1' (read as ACUITE A One)** on the Rs.215.00 Cr bank facilities of SML Films Limited (SML). The outlook is **'Stable'**.

The rating upgrade is driven by continued improvement in operational and financial risk profile of SML and. SML's operating income grew at CAGR of 15.34 percent for period FY2018-FY2021. It stood at Rs.936.01 Cr in FY2021(Provisional) against Rs.609.94 Cr in FY2018. The operating margins improved to 27.99 per cent in FY2021(Provisional) from 23.78 per cent in FY2020. Improvement was also observed in gearing and coverage indicators. The rating also takes into account benefits to SML from the surge in the demand of flexi packaging solutions over the medium term. SML is currently undertaking a backward integration capex and plans to add a fourth BoPET line to its existing three BoPET lines over the medium term. Timely completion of ongoing and planned capex without significant time and cost overruns would be a key monitorable.

About the Company

Incorporated in 2002, SML is a Surat-based company engaged in manufacturing of polyester films, 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. The Company is promoted and managed by Mr. Pragnesh Jariwala and family and has an installed BoPET capacity of 100,000 MTPA. It plans to increase this to 1,36,000 MTPA over the medium term.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SML for arriving at this rating.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations
SML 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. 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 ~27 percent of total sales. The key suppliers include names like Shree Durga Syntex Private Limited, Garden Silk Mills Ltd, to name a few.

• **Healthy operational risk profile**
The revenue of the company has grown at a CAGR of 15.34 percent since FY2018. SML reported total operating income of Rs.936.01 Cr in FY2021(Provisional) as against Rs.801.36 Cr in FY2020. The company added a third line to their existing two lines of BOPET production in March 2020 leading to a growth in revenue of 16.80 percent in FY2021(Provisional). The installed capacity of BOPET line production increased to 100,000MTPA in FY2021 from 66,000 MTPA in FY2020. SML's operating performance also largely remained unaffected by spread of COVID19 and subsequent lockdowns. Operating margin improved to 27.99 per cent in FY2021(Provisional) from 23.78 per cent in FY2020. Further, Profit After Tax (PAT) margins improved to 14.75 percent in FY2021(Provisional) from 12.39 per cent in FY2020. The improvement is driven by lower raw material cost in FY2021. Company's products find application in multiple industries like packaging, printing and lamination, textile yarn, electrical insulation, decorative applications. Over the medium term SML's operating risk profile is expected to remain stable on the back of increasing demand. To further cater to the increased demand the company plans to add a fourth BoPET line to its existing three BoPET lines over the medium term. SML is also currently undergoing a backward integration capex to set up an in-house polyster chips production facility. Polyster chips is one of the main raw materials for the Company and constitutes more than 70 percent of its total input cost. The facility is expected to become operational by FY2022 end.

Acuité believes SML's operating risk profile would remain stable over the medium term on account of increasing demand, cost savings and planned capacity expansion.

• **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 net-worth stood at Rs. 494.35 crore as on March 31, 2021(Provisional) as against Rs.356.29 crore as on March 31, 2020 and Rs.256.98 crore in the previous year. The overall gearing stood at 0.44 times as on March 31, 2021(Provisional) as against 0.68 times as on 31 March, 2020 and 0.62 times as on 31 March, 2019. The total debt as on 31 March, 2021(Provisional) of Rs.216.43 crore majorly comprises of a term loan of Rs.210.14, unsecured loans of Rs.0.29 crore and working capital facility of Rs.6.00 crore. The gearing is expected to remain low in future due to expectations of healthy net worth. In FY2021, net cash accruals increased to Rs.212.28 crore as against Rs.152.87 crore in FY2020. 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 61.36 times for FY2021(Provisional) as against 36.06 times for FY2020 and NCA to Total Debt ratio at 0.98 time as on March 31, 2021(Provisional) as against 0.63 times as on March 31, 2020. Total outside Liabilities to Tangible Net Worth (TOL/TNW) improved to 0.70 times as on 31 March, 2021(Provisional) from 0.88 times as on 31 March, 2020.

Acuité believes SML's financial risk profile would remain healthy on the back of healthy net cash accruals and improving operating risk profile.

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 polyster chips, plastic resins, granules and powder are crude oil derivatives. The prices of these commodities are subject to volatility in line with those of global crude oil prices. Further, as on date 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.

• **Cyclical and commoditized nature of industry**
Packaging films industry is cyclical in nature with bouts of demand and supply mismatches. Incase of supply overhangs, product realisations are impacted due to commoditized nature of industry. The industry has a tendency to add large capacities when prices improve leading to a situation of over-capacity vis-à-vis demand. This causes pressure on the margins of the industry players due to heightened competitive intensity and limited product differentiation.

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.113.91 to 212.28 crore during the last three years through 2019- 21, while its maturing debt obligations were in the range of Rs.13.78 to 30.14 crore over the same period. The company's working capital operations are comfortable as marked by Gross Current Asset (GCA) days of 89 in FY2021. Further, the reliance on working capital borrowings is low; the cash credit limit utilization during the last 12 month's period ended June, 2021 stood at 41 percent. The company maintains unencumbered cash and bank balances of Rs.7.54 crore as on March 31, 2021 and deposits of Rs.58.11 Cr. The current ratio of the company stands healthy at 2.15 times as on March 31, 2021. Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accrual.

Material Covenants
None

Rating Sensitivities
- Timely completion of ongoing capex without significant time and cost overruns
- Any significant deterioration in profitability

Outlook: Stable
Acuité believes that SML will maintain a 'Stable' outlook over the medium term on the back of its experienced management, healthy operating and financial risk profile. The outlook may be revised to Positive' in case the company registers higher-than-expected growth in revenues without any deterioration in profitability. 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	936.01	801.36
PAT	Rs. Cr.	138.08	99.30
PAT Margin	(%)	14.75	12.39
Total Debt/Tangible Net Worth	Times	0.44	0.68
PBDIT/Interest	Times	61.36	36.06

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-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 the Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
07-Sep-2020	Cash Credit	Long Term	49.00	ACUITE A (Upgraded and Withdrawn)
	Cash Credit	Long Term	30.00	ACUITE A (Upgraded and Withdrawn)

	Cash Credit	Long Term	120.00	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
	Bank Guarantee	Short Term	20.00	ACUITE A1 (Upgraded from ACUITE A2+)
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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE A+/Stable (Upgraded from ACUITE A)
HDFC Bank	Bill Discounting	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ (Assigned)
Citi Bank	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1+ (Assigned)
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A+/Stable (Assigned)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ (Upgraded from ACUITE A1)

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About Acuité Ratings & Research:
Acuité Ratings & Research 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.