

**Press Release**  
**SML Films Limited**

**January 03, 2023**

**Rating Reaffirmed**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	170.00	ACUITE A+   Stable   Reaffirmed	-
Bank Loan Ratings	45.00	-	ACUITE A1+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	215.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

**Rating Rationale**

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

**Rationale for reaffirmation**

Rating reaffirmation takes into account the improved operational and financial risk profile of the company. Company has achieved growth of 31.68% in revenues over FY 2021 and operating income stood at Rs. 1227.74 Cr in FY 2022. Financial risk profile of company is healthy marked by healthy net worth, healthy debt protection measures and low gearing. However the rating is constrained by decline in profitability in FY 2022 and the market position of the company with respect to competitors.

**About the Company**

Incorporated in 2002, SML is a Surat-based company engaged in manufacturing of polyester films, metallized and lacquered polyester films, 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 102,000 MTPA.

**Analytical Approach**

Acuite 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 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. 645.20 Cr in FY 2022 as against Rs. 492.63 Cr in FY 2021. Total debt of Rs. 411.49 Cr in FY 2022 consists of Rs. 321.75 Cr of long term debt, Rs. 60.10 Cr of working capital borrowings and Rs. 29.63 Cr of CPLTD. Debt to Equity (Gearing) moderated to 0.64 times in FY 2022 as against 0.44 times in FY 2021 due to increase in total debt. Interest Coverage Ratio stood strong and improved to 68.62 times in FY 2022 as against 58.41 times in FY 2021 due to lower interest cost emanating from low interest rates on external commercial borrowings. DSCR moderated to 6.56 times in FY 2022 as against 8.13 times in FY 2021. TOL/TNW and Debt-EBITDA has increased from 0.70 times and 0.81 times in FY 2021 to 0.81 times and 1.47 times in FY 2022 respectively. NCA/TD has moderated from 0.97 times in FY 2021 to 0.54 times in FY 2022. Since the company does not have any debt funded capex plan in the near term hence financial risk profile is expected to remain stable with moderate improvements going forward.

### **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.

### **Rating Sensitivities**

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

### **Material covenants**

None.

### **Liquidity Position**

#### **Strong**

Company has strong liquidity marked by high net cash accruals, comfortable limit utilizations and better debtor realization period. In FY 2022 company generated net cash accruals of Rs. 220.27 Cr against maturing debt obligations of Rs. 30.14 Cr. Going forward company is expected to generate net cash accruals of Rs. 254.10 Cr and Rs. 329.00 Cr in FY 2023 and 2024 respectively against maturing debt obligations of Rs. 29.63 Cr and Rs. 47.08 Cr in each respective year. Average Bank Limit utilization is comfortable at 8.41% in the last 7 months'

period between April 2022 to October 2022. Debtor days have improved and remained comfortable at 47 in FY 2022. In FY 2022 company had unencumbered cash and bank position of Rs. 10.24 Cr.

### 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.

### Other Factors affecting Rating

None.

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1227.74	932.34
PAT	Rs. Cr.	152.56	136.35
PAT Margin	(%)	12.43	14.62
Total Debt/Tangible Net Worth	Times	0.64	0.44
PBDIT/Interest	Times	68.62	58.41

### Status of non-cooperation with previous CRA (if applicable)

SML Films Limited has non cooperative rating from Brickwork Ratings as "BWR BB-/Stable/A4 INC" published on 1st August 2022.

### Any other information

None.

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Oct 2021	Bank Guarantee	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	120.00	ACUITE A+   Stable (Reaffirmed)
	Packing Credit	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE A+   Stable (Reaffirmed)
24 Sep 2021	Cash Credit	Long Term	50.00	ACUITE A+   Stable (Reaffirmed)
	Packing Credit	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	120.00	ACUITE A+   Stable (Reaffirmed)
06 Sep 2021	Bank Guarantee	Short Term	20.00	ACUITE A1+ (Upgraded from ACUITE A1)
	Packing Credit	Short Term	25.00	ACUITE A1+ (Assigned)
	Bills Discounting	Short Term	20.00	ACUITE A1+ (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A+   Stable (Assigned)
	Cash Credit	Long Term	120.00	ACUITE A+   Stable (Upgraded from ACUITE A)
07 Sep 2020	Bank Guarantee	Short Term	20.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Cash Credit	Long Term	30.00	ACUITE A (Withdrawn)
	Cash Credit	Long Term	49.00	ACUITE A (Withdrawn)
	Cash Credit	Long Term	120.00	ACUITE A   Stable (Upgraded from ACUITE A-   Stable)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A1+   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	120.00	ACUITE A+   Stable   Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A+   Stable   Reaffirmed
CITI Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1+   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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