



**Press Release**  
**SML Films Limited**  
**October 27, 2023**

**Rating Assigned and Reaffirmed**

| Product                                   | Quantum<br>(Rs. Cr) | Long Term Rating                | Short Term Rating       |
|---|---------------------|---------------------------------|-------------------------|
| Bank Loan Ratings                         | 55.00               | ACUITE A+   Stable   Assigned   | -                       |
| Bank Loan Ratings                         | 195.00              | ACUITE A+   Stable   Reaffirmed | -                       |
| Bank Loan Ratings                         | 45.00               | -                               | ACUITE A1+   Assigned   |
| Bank Loan Ratings                         | 20.00               | -                               | ACUITE A1+   Reaffirmed |
| <b>Total Outstanding Quantum (Rs. Cr)</b> | 315.00              | -                               | -                       |

**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**'

Acuite has assigned its long-term rating to '**ACUITE A+**' (read as **ACUITE A plus**) and short term rating to '**ACUITE A1+**' (read as **ACUITE A One plus**) on the Rs.100.00 Cr bank facilities of SML Films Limited (SML). The outlook is '**Stable**'.

The rating takes into account the healthy financial risk profile of SML marked by healthy debt protection metrics and minimal gearing, strong liquidity position amid muted growth in scale of operations. Despite the sluggish demand for the Plastic films & flexible packaging industry, SML has reported similar level of performance as compared to FY2022 i.e, revenue stood at Rs.1223.27 Cr in FY2023 as against Rs.1227.74 Cr in FY2022. The net worth of the company stood at Rs. 704.93 Cr in FY2023 as against Rs.645.20 Cr in FY2022. Overall gearing of the company stood at 0.48 times in FY2023 as against 0.64 times in FY2022, the interest coverage ratio stood at 37.52 times in FY2023 as against 68.62 times in FY2022. The company has healthy net cash accruals of Rs.141.64 Cr in FY2023 as against the repayment obligation of Rs. 29.63 Cr the same year.

The rating also takes into account the sharp decline in operating margins in FY2023 due to adverse movement of raw material prices, the operating margin of SML for FY 2023 was weaker than expectations as the margins have declined to ~14.11 percent in FY2023 from 22.39 percent in FY2022, the decline in the margins is observed across the packaging industry which has been adversely impacted since Q2 FY2023, due to sharp decline in prices because of oversupply in the industry and rise in the raw material prices. The susceptibility of profitability margins to fluctuations in prices of raw material and foreign exchange fluctuation and cyclical and commoditized nature of industry impinge a negative bias to the rating. Going forward, the company's ability to improve its profitability margins and scale of operations while maintaining its capital structure will be a key rating monitorable.

## 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 152,000 MTPA, SML also installed polyester chip manufacturing plant (in house facility) with capacity of 1,79,000 MTPA in FY2023.

### **Standalone (Unsupported) Rating**

None

### **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 ~30 percent of total sales. The key suppliers include names like Reliance Industries Limited, Shree Durga Syntex Private Limited, Garden Silk Mills Ltd, to name a few.

- **Healthy financial risk profile**

The company's financial risk profile is marked by a healthy net worth, gearing and debt protection metrics. The net worth of the company stood at Rs.704.93 Cr and Rs.645.20 Cr as on March 31, 2022 and 2023 respectively. The improvement in net worth is due to accretion of reserves. The gearing of the company stood at 0.48 times as on March 31, 2023 against 0.64 times as on March 31, 2022. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 37.52 times and 4.26 times as on March 31, 2023 respectively as against 68.62 times and 6.52 times as on March 31, 2022 respectively. TOL/TNW (Total outside liabilities/Total net worth) stood at 0.76 times and 0.81 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 1.93 times as on March 31, 2023 as against 1.47 times as on March 31, 2022. Acuité believes that the financial risk profile of SML will continue to remain healthy over the medium term in the absence of any major debt-funded capital expenditure.

- **Efficient working capital management**

SML's working capital operations are efficient with from Gross Current Asset (GCA) at 70 days as on March 31, 2023 as against 83 days as on March 31, 2022. Inventory days stood at 27 days as on March 31, 2023 as against 31 days as on March 31, 2022. Subsequently, the payable period stood at 62 days as on March 31, 2023 as against 21 days as on March 31, 2022 respectively. The debtor day stood at 38 days as on March 31, 2023 as against 47 days as on March 31, 2022. Further, the average bank limit utilization in the last

12 months ended August 2023 remained at 58 percent for non- fund based limits and 2 percent for fund based limits.

## Weaknesses

- **Sharp decline in operating margins in FY2023**

There has been a substantial decrease in the EBITDA margins in FY2023 which is majorly due to increase in raw material (mainly crude oil derivatives) price and supply chain pressures especially for BOPET product. The decline in margins has been industry wide. SML's operating margin declined and stood at ~14.11 percent in FY2023 from ~22.39 percent in FY2022. The margin for FY2024 is estimated to be on same level as FY2023, due moderation of key raw material prices witnessed in Q1 FY2024.

- **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

- Significant and sustainable improvement in profitability margins and scale of operations while maintaining the capital structure
- Elongation of working capital cycle impacting the liquidity profile

## All Covenants

None

## Liquidity Position: Strong

SML has strong liquidity marked by healthy net cash accruals as against which the repayment obligations. The company generated cash accruals in the range of Rs.141.64 Cr in FY2023, while its maturing debt obligations were 29.63Cr during the same period. Going forward the company is expected to generate net cash accruals around Rs. 142 Cr to 170.00 Cr in FY 2024-25 respectively against maturing debt obligations of Rs. 49.00 to 49.82 Cr in each respective year. The current ratio stood at 1.47 times as on March 31, 2023 and the limits (which are interchangeable between Fund based and non- fund based) remains utilized at 58 percent over the 8 months ended August 31, 2023. The company maintains unencumbered cash and bank balances of Rs.6.13 Cr as on March 31, 2023. Acuité believes that the liquidity of the company is likely to improve over the medium term

## Outlook: Stable

Acuité believes that SML will maintain a 'Stable' outlook over the medium term on the back of its experienced management, healthy financial risk profile and strong liquidity. 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 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 1223.27        | 1227.74        |
| PAT                           | Rs. Cr. | 59.74          | 152.56         |
| PAT Margin                    | (%)     | 4.88           | 12.43          |
| Total Debt/Tangible Net Worth | Times   | 0.48           | 0.64           |
| PBDIT/Interest                | Times   | 37.52          | 68.62          |

### 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>
- 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, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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                                       |
|-------------|--------------------------------|------------|-----------------|--|
| 03 Jan 2023 | Bank Guarantee                 | Short Term | 20.00           | ACUITE A1+ (Reaffirmed)                              |
|             | Cash Credit                    | Long Term  | 50.00           | ACUITE A+   Stable (Reaffirmed)                      |
|             | Packing Credit                 | Short Term | 25.00           | ACUITE A1+ (Reaffirmed)                              |
|             | Cash Credit                    | Long Term  | 120.00          | ACUITE A+   Stable (Reaffirmed)                      |
| 05 Oct 2021 | Packing Credit                 | Short Term | 25.00           | ACUITE A1+ (Reaffirmed)                              |
|             | Cash Credit                    | Long Term  | 50.00           | ACUITE A+   Stable (Reaffirmed)                      |
|             | Cash Credit                    | Long Term  | 120.00          | ACUITE A+   Stable (Reaffirmed)                      |
|             | Bank Guarantee                 | Short Term | 20.00           | ACUITE A1+ (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         |
| CITI Bank     | Not Applicable | Cash Credit          | Not Applicable   | Not Applicable | Not Applicable | Simple           | 25.00             | ACUITE A+   Stable   Reaffirmed |
| Axis Bank     | Not Applicable | Cash Credit          | Not Applicable   | Not Applicable | Not Applicable | Simple           | 50.00             | ACUITE A+   Stable   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   Assigned   |
| CITI Bank     | Not Applicable | Cash Credit          | Not Applicable   | Not Applicable | Not Applicable | Simple           | 5.00              | ACUITE A+   Stable   Assigned   |
| CITI Bank     | Not Applicable | Letter of Credit     | Not Applicable   | Not Applicable | Not Applicable | Simple           | 45.00             | ACUITE A1+   Assigned           |

## Contacts

| Analytical   | Rating Desk  |
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| Mohit Jain<br>Senior Vice President-Rating Operations<br>Tel: 022-49294017<br><a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a><br><br>Moparthy Anuradha Devi<br>Analyst-Rating Operations<br>Tel: 022-49294065<br><a href="mailto:moparthy.anuradha@acuite.in">moparthy.anuradha@acuite.in</a> | Varsha Bist<br>Senior Manager-Rating Operations<br>Tel: 022-49294011<br><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a> |

### 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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