

Press Release

Sellowrap EPP India Private Limited

August 21, 2018

Rating Assigned



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 20.00 Cr. |
| Long Term Rating | ACUITE BBB / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 20.00 crore bank facilities of Sellowrap EPP India Private Limited (SEIPL). The outlook is '**Stable**'.

Sellowrap EPP India Private Limited (SEIPL) based at Mumbai (Maharashtra) was incorporated in 2005. The company was incorporated in Joint Venture between Sellowrap Industries Private Limited (SIPL) with Mitsui & Co. India Private Ltd (Subsidiary of Japanese based Mitsui & Co.) and Kaneka India Private Limited (Indian subsidiary of Kaneka Corporation). The company is engaged in Manufacturing of expanded PP/PE & PS products like Bumper Core, floor spacer, tool kit, side impact bar, sun visor core, door trim pad, head rest pad, and returnable container among others. The manufacturing unit is located at Bawal (Haryana) with installed capacity of 5,52,000 kgs per annum.

Key Rating Drivers

Strengths

• Experience track record of management

SEIPL is a joint venture between three promoter companies SIPL (40.00 percent holding), Mitsui & Co. Ltd a Japanese company (28.00 percent holding) and Kaneka India private limited (32.00 percent holding). SEIPL is part of SK group which has two companies SEIPL and SIPL, manufacturer of automobile and white goods components from different grades of foams and molded plastics since 1986. Mitsui & Co. is one of the largest trading and investment companies in the world operating in nine business areas including automobile parts and ancillary. Kaneka Corporation is also Japan based group engaged in manufacturing of Performance Polymers (PP) and having its presence in several countries.

The day to day operations of SEIPL are currently managed by Mr. Saurabh Poddar (Director of SK Group) who has more than two decades of experience in the automobile industry. The other directors Mr. Kazuyuki Senda (nominee of Kaneka Corporation) and Mr. Hiroo Matsumura (nominee of Mitsui & Co. Ltd.) are also actively involved in managing the business of the company.

Besides the experience of Indian promoter, operational and financial support provided by overseas promoter has helped the SEIPL to establish the market presence in Indian automobile industry. Mitsui & Co. is also major raw material supplier to SEIPL. The overseas stakeholders are in the process of increasing their current stake from 60.00 percent to 74.00 percent in SEIPL.

Acuite believes support obtained from promoters of SK group, technology and financial support from reputed international stake holders like Mitsui & Co. and Kaneka Corporation will continue to benefit SEIPL over the near to medium term.

• Long standing relationships with Reputed OEMs

SEIPL has relationships with the leading automobile manufacturers in the country. Its clientele includes Maruti Suzuki India limited (MSIL), Volkswagen India Pvt. Ltd, General Motors (GM), Skoda Mahindra & Mahindra, Tata motors and others. MSIL accounted 37.27 percent of the overall revenues of SEIPL in FY2018 (37.76 percent in FY2017). With the gradual increase in polymerisation of auto components, the prospects for players like SEIPL are bright. Hence the company has decided to capitalise on these opportunities and is expanding its capacities by setting up an additional plant at Gujarat primarily to cater to Maruti segment.

- **Comfortable financial risk profile despite expected addition to debt**

SEIPL's financial risk profile is marked by healthy net worth, comfortable net cash accruals and healthy debt protection metrics. The net worth stood moderate at Rs.22.87 crore in FY2018 (Provisional) as compared to Rs.19.13 crore in FY2017, mainly on account of retention of earnings. The company currently does not have debt on its books and have been able to manage its operations through equity and internal accruals. The net cash accruals stood at Rs.5.31 crore for 2018 (Provisional) and Rs.4.64 crore for FY2017. The company has sanctioned working capital limits of Rs. 2.00 cr. These limits are rarely utilized, since the company prefers to rely on internal accruals. It also avails extended credit terms from Mitsui, its key supplier which helps in lowering the external funding requirements.

The debt funding is likely to go up over the near term on account of the expansion project being undertaken by the company. The company is presently undertaking an expansion project at Mehsana, Gujarat with an estimated cost of Rs.48.50 crore. The project will be funded to set up new plant in Gujarat which will be funded by Rs.16.35 crore equity, Rs.20.00 crore of debt funding and Rs.12.15 crore from internal accruals. The new project is expected to commence operations by September 2019. The gearing is expected to be ~ 0.51 times by FY19 & 0.46 times FY20. The timely operationalization of this project and its ability to scale up its operations will be a key monitorable.

Acuite believes that the company will be able to adequately manage its debt protection metrics and liquidity position from planned debt funded capex.

Weaknesses

- **Project risks emanating from ongoing expansion initiative**

SEIPL ongoing expansion plan to increase its existing manufacturing capacity to 12,50,000 Kgs per annum from 5,52,000 kgs per annum will have estimated project cost of Rs.48.50 crores. The funding will be done by infusing of promoter's capital of Rs.16.50 crores, bank funding of Rs.20.00 crores and rest from internal accruals. The project is significantly large as compared to company current scale of operations. The project is expected to start its commercial operation from October 2019 and comes with significant project risk which may impact overall operations. However, continuous support from foreign promoter companies will help in timely completion of project.

Acuite believes timely execution and completion of the project remains a key rating sensitivity factor.

- **Modest working capital cycle**

The modest working capital intensive nature of operations is marked by Gross Current Assets (GCA) of 178 days in FY2018 (Provisional) as compared to 138 days in FY2017. The inventory days stood at 54 days in FY2018 (Provisional) as compared to 50 days in FY2017. The debtors stood moderate and increased to 71 days in FY2018 (Provisional) from 28 days in FY2017.

- **Volatility in raw material prices affecting margins and foreign exchange risk**

The main raw material required for production is Polypropylene Eperan (PE). The prices of PE are volatile and are largely driven by changes in crude oil prices which affect global as well as domestic markets. Further, the company imports about 78.00 percent of its raw materials, which exposes SEIPL to foreign exchange fluctuation risk. However, these risks are mitigated to certain level by necessary arrangements made to pass on the adverse impact of increasing price to its customers.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SEIPL for arriving at the rating.

Outlook: Stable

Acuite believes that SEIPL will maintain a 'Stable' outlook over the medium term backed by its established operational track record and experienced management. The outlook may be revised to 'Positive' if the company registers improvement in operating and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of delay in project execution impacting operating performance or deterioration in the financial risk profile due to planned debt funded capex.

About the Rated Entity - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 42.31 | 35.98 | 30.21 |
| EBITDA | Rs. Cr. | 6.74 | 5.67 | 5.80 |
| PAT | Rs. Cr. | 3.75 | 2.94 | 4.07 |
| EBITDA Margin | (%) | 15.94 | 15.75 | 19.21 |
| PAT Margin | (%) | 8.86 | 8.17 | 13.48 |
| ROCE | (%) | 25.75 | 23.07 | 28.42 |
| Total Debt/Tangible Net Worth | Times | 0.00 | 0.00 | 0.00 |
| PBDIT/Interest | Times | 370.93 | 326.56 | 272.90 |
| Total Debt/PBDIT | Times | 0.00 | 0.00 | 0.00 |
| Gross Current Assets (Days) | Days | 178 | 138 | 143 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|-------------------------|------------------|----------------|----------------|-------------------------------|---------------------|
| Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB / Stable |

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About Acuite Ratings & Research:

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