Press Release

SMVD Poly Pack Limited

September 07, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 28.77 Cr.
Long Term Rating	ACUITE BB+/Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BB+' (read as ACUITE double B plus)** to the Rs.28.77 crore bank facilities of SMVD Polypacks Limited. The outlook is **'Stable'**.

The rating continues to reflect the extensive experience of the management in the polymers industry. The rating also reflects moderate scale of operation and healthy relationship with suppliers. However, these strengths are partially offset by declining profitability margin and working capital intensive nature of operation.

About the company

Established in 2010 and commenced its commercial operation from 2012, SMVD Polypacks Limited is a West Bengal-based company promoted by Mr. Pramod Kumar Agarwal and Mr. Pawan Kumar Agarwal. The company is engaged in manufacturing of Polypropylene (PP) and High Density Polyethylene (HDPE) woven bags and fabrics with the installed capacity of 6000 MTPA. The company mainly caters to the chemical and fertilizer industries, minerals, steel and cement industries West Bengal & Odisha.

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of SMVD while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

The company has an operational track record of more than 10 years in the polymer industry and the promoters of the company Mr. Pramod Kumar Agarwal and Mr. Pawan Kumar Agarwal have more than a decade of experience in similar industry. The company has a long presence in this sector and has established a healthy relationship with customers for more than a decade. Acuité believes that the company will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term.

Moderate scale of operation

The revenue of the company stood moderate at Rs.68.31 crore in FY2021 as compared to Rs. 57.90 crore in the previous year. The company has earned Rs.35.00 crore till July 2021 (Provisional). Acuite believes the revenue of the company will gradually increase over the medium term backed by increasing demand from the different industries in domestic market.

Moderate financial risk profile

The financial risk profile of the company is marked by moderate net worth, high gearing and moderate debt protection metrics. The net worth of the company stood moderate at Rs.22.00 crore in FY 2021 as compared to Rs 21.51 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company has stood high at 1.50 times as on March 31, 2021 when compared to 1.43 times as on March 31, 2020. However, this slight increase in gearing is on account of increase in long term debt during the period. Interest coverage ratio (ICR) is moderate and stood at 1.49 times in FY2021 as against 1.39 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood low at 0.73 times in FY2021 and in the previous year respectively. The net cash accruals to total debt (NCA/TD) stood low at 0.07 times in FY2021 and in the previous year respectively. Going forward, Acuité believes the financial risk profile of the company will remain improve on account of steady net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

Declining profitability margin

The operating profitability margin of the company has declined to 8.77 per cent in FY2021 as compared to 10.70 per cent in the previous year. This deterioration in operating profitability margin is on account of increase in raw material price, which the company could not pass to their customer due to high competition in the market from the organized and unorganized players. Moreover, the employee cost of the company has also increased during FY21, which further leads to deterioration in operating margin during the period. The net profitability margin of the company stood low at 0.71 per cent in FY2021 as compared to 1.26 per cent in the previous year.

Working capital intensive nature of operation

The working capital intensive nature of operation is marked by high gross current asset (GCA) of 198 days in FY2021 as compared to 204 days in the previous year. The inventory days of the company stood high at 131 days in FY2021 as compared to 137 days in the previous year. The debtor days of the company stood moderate at 64 days in FY 2021 as compared to 58 days in the previous year. Moreover, the working capital limit has been utilized ~40 per cent for the last six months ended July 2021. Acuité believes any further elongation in working capital would be a key rating sensitivity factor.

Rating Sensitivity

- Scaling up of operation while maintaining their profitability margin
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by the low bank limit utilization of ~40 per cent utilized during the last six months ended in July 2021. Further, the liquidity of the company is also supported by free fixed deposit of Rs.1.30 crore during FY2021. The current ratio of the company stood moderate at 1.31 times in FY2021.However, the net cash accruals of the company stood moderate at Rs.2.18 crore as against Rs.3.78 crore long term debt obligations during FY2021. The cash accruals of the company are estimated to remain in the range of around Rs. 3.04 crore to Rs. 5.57 crore during 2022-24 as against Rs.3.78 crore in FY2023 of long term debt obligations. The working capital management of the company is marked by high Gross Current Asset (GCA) days of 198 days in FY2021. Moreover, the company has availed covid emergency fund of Rs.5.14 crore from bank. The said loan has to be repaid over a period of 4 years including 1 year of moratorium. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of improvement in cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook from the extensive experience of the promoter and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected revenues and profitability, leading to a substantial increase in cash accrual. The outlook may be revised to 'Negative' in case of lower-than-expected revenues, deterioration in profitability resulting in weak financial risk profile.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	68.31	57.90
PAT	Rs. Cr.	0.49	0.73
PAT Margin	(%)	0.71	1.26
Total Debt/Tangible Net Worth	Times	1.50	1.43
PBDIT/Interest	Times	1.57	1.73

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. Cr.)	Ratings / Outlook
20-Sep-2019	Cash Credit	Long Term	16.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	12.77	ACUITE BB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BB+/Stable (Reaffirmed)
Axis Bank	Term Loan	Not Available	8.60%	Oct 2025	12.77	ACUITE BB+/Stable (Reaffirmed)

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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.