

Press Release

Samarth Fablon Private Limited

August 25, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 118.23 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 118.23 crore bank facilities of Samarth Fablon Private Limited. The outlook is '**Stable**'.

The ratings reflect group's established track record along with long term association with reputed cement companies. The group has registered a healthy revenue growth in FY21 backed by rise in revenue contribution from trading segment. The ratings continue to factor in group's comfortable financial risk profile and adequate liquidity profile. These rating strengths are partially offset by group's working capital intensive nature of operations. In addition, the group has undertaken a large debt funded capital expenditure program which is expected to lead to moderation in their debt coverage and leverage indicators in the near term.

Samarth Ad Protex Private Limited (SAPL) was incorporated in 2013 and started its commercial operation since December 2017. SAPL is also engaged in manufacturing of PP bags and has an installed capacity of 10,500 tons per annum. Their manufacturing unit is located in Jhalda, Purulia (West Bengal).

About the group

Samarth Fablon Private Limited (SFPL) was incorporated in 2007 by Mr Bishnu Kumar Agarwala. The company is engaged in manufacturing Polypropylene (PP) woven sacks and trading of Polypropylene (PP) granules. The company has its manufacturing unit in Jhalda, Purulia (West Bengal) with an installed capacity of 24,000 tons per annum.

Shree Ram Electrocast Jharkhand Private Limited (SREJPL) was incorporated in October 2010. The company is setting up a greenfield project with a fund outlay of around Rs 167.42 Cr to set up a PP bag manufacturing unit with an installed capacity of 22,000 MTPA in Ranchi, Jharkhand.

Analytical Approach:

Acuite has revised the analytical approach of Samarth group to include of Shree Ram Electrocast Jharkhand Private Limited (SREJPL). Acuite has now taken a consolidated view of all 3 companies SAPL, SFPL and SREJPL because of common management, similar line of business and financial linkages in the form of corporate guarantee extended by SFPL to SAPL. In addition, SFPL and SAPL have extended guarantee to SREJPL. Extent of Consolidation: Full

Key Rating Drivers:

Strengths

Experienced management

The promoter of the Samarth group has a business experience of more than a decade in the plastic packaging business. The group has a strong customer base which includes leading cement companies, petrochemical company and government entities such as ACC Limited, Ultratech Cement Ltd, Indian Oil Corporation Ltd among others. The group has been associated with their key customers almost since inception. Acuite believes that the extensive experience of the promoter would continue to help in the business risk profile of the group going forward.

Improvement in scale of operation

The group has posted a revenue of Rs 427.67 Cr in FY21 (Provisional) as against Rs 342.43 Cr in FY20 due to rise in trading activity. The group will expand its production capacity by 22,000 MTPA in FY22 through a debt funded capex plan of Rs 167.42 Cr which is likely to be operational from Q3FY22. Hence the group is likely to witness revenue growth over the medium term backed by capacity addition.

Comfortable financial risk profile

The financial risk profile of the group is marked by moderate net worth, modest gearing and comfortable debt protection metrics. The net worth of the group stood at Rs 102.94 crore in FY2021 (Provisional) as compared to Rs.77.99 crore in FY2020. The gearing of the group stood at 1.16 times in FY21 (provisional) as compared to 1.44 times in FY20 due to ongoing debt funded capex plan. The total debt of Rs.119.34 crore in FY2021 (Provisional) consists mainly of short-term loan of Rs.69.03 crore, long-term debt of Rs 43.96 crore and unsecured loan of Rs 6.35 Cr. TOL/TNW stood at 1.40 times in FY21 (Provisional) as against 1.57 times in FY20. Interest coverage ratio (ICR) stood at 2.79 times in FY21 (Provisional) as against 2.19 times in FY 2020. The debt service coverage ratio stood at 1.49 times in FY21 (Provisional) as against of 1.26 times in FY20. The net cash accruals against total debt (NCA/TD) stood at 0.15 times in FY21 (Provisional) as compared to 0.12 times in previous year. Acuite believes the financial risk profile of the group will remain comfortable over the medium term backed by steady accruals and moderate profit margin even though they might witness some moderation in FY'22 due to the ongoing capex plan in SREJPL.

Moderate profitability margin

EBITDA margin of the group stood at 7.11 percent in FY21 (provisional) as against 7.65 percent in FY20 due to change in revenue mix. The revenue from trading segment has increased in FY21 where the profit margin is comparatively low in comparison to manufacturing segment. PAT of the group stood at 1.48 percent in FY21 (Provisional) as against 0.91 percent in FY20. Acuite believes profitability margin is likely to remain at a similar level in medium term as the group is capable to pass on any price fluctuation to its customers.

Weaknesses

Working capital intensive nature of operation

The working capital-intensive nature of operations is marked by high gross current asset (GCA) days of 134 days in FY2021 (Provisional) as compared to 114 days in FY2020. The increase is on account of rise in debtor days to 53 days in FY21 as compared to 48 days in FY20. Inventory days stood at 56 days in FY21 against 49 days in FY20. Acuite believes that the operations of the group will continue to be working capital intensive over the medium term because of stretched receivable from large corporates.

Ongoing capex plan to increase debt levels

The group has undertaken a large debt funded greenfield project in SREJPL to set up a PP bags manufacturing facility in Jharkhand. The project cost for upcoming facility is Rs 167.42 Cr which is funded a mix of debt and equity in 2:1 ratio. The proposed facility is likely to be operational by Q3FY22. Acuite believes the coverage and leverage ratios of the group will witness moderation over the medium term because of the rise in the debt levels.

Rating Sensitivity

- Sustenance of revenue growth
- Improvement in profitability margin
- Timely completion of planned capital expenditure

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity profile reflected from its comfortable net cash accrual of Rs.17.97 crores in FY21 (provisional) as against current maturity of Rs. 8.36 crores. Going forward, the net cash accruals are expected to be in the range of Rs 32-Rs20 Cr as against current maturity of around Rs.10 Cr from FY22-FY24. The current ratio had been comfortable at 1.61 times in FY21 as against 1.16 times in previous year. The utilization of fund-based limits which stood at 83 percent during last 8 month ended June 2021. The group has high working capital requirement as reflected from its GCA days of 134 days in FY21. Acuite believes liquidity

profile will remain adequate in medium term backed by steady net cash accrual.

Outlook: Stable

Acuite believes that Samarth Group will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and longstanding relations with their customers. The outlook may be revised to 'Positive' in case the group is able to scale up its operations along with improvement in profitability margin. Conversely, the outlook may be revised to 'Negative' if the group witnessed a significant deterioration in financial risk profile or liquidity profile due to any significant time or cost overruns in their planned capital expenditure.

About the Rated Entity - Consolidated

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	427.67	342.43
PAT	Rs. Cr.	6.34	3.12
PAT Margin	(%)	1.48	0.91
Total Debt/Tangible Net Worth	Times	1.16	1.44
PBDIT/Interest	Times	2.79	2.19

About the Rated Entity - Standalone

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	356.90	247.22
PAT	Rs. Cr.	4.87	2.38
PAT Margin	(%)	1.36	0.96
Total Debt/Tangible Net Worth	Times	1.30	1.12
PBDIT/Interest	Times	2.20	1.80

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

SFPL is listed under the 'Non Co-operation by the issuer' category by India Ratings due to inadequate information provided by the company.

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>

Consolidated - <https://www.acuite.in/view-rating-criteria-60.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
06-08-2021	Cash Credit	Long Term	91.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.23	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BBB/Stable

				(Reaffirmed)
	LC	Short Term	10.00	ACUITE A3+ (Reaffirmed)
07-07-2020	Cash Credit	Long Term	15.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	76.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	8.23	ACUITE A3+ (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB/Stable (Assigned)
	LC	Short Term	10	ACUITE A3+ (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	91.00	ACUITE BBB/Stable (Reaffirmed)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.23	ACUITE A3+ (Reaffirmed)
Union Bank of India	Term Loan	March 2021	9.25%	March 2026	9.00	ACUITE BBB/Stable (Reaffirmed)
Union Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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