

Press Release

Samarth Fablon Private Limited

December 05, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.50	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	114.51	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	12.47	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	129.48	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed a 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. 126.98 crore bank facilities of Samarth Fablon Private Limited. The outlook is '**Stable**'.

Acuite has assigned a long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 2.50 crore bank facilities of Samarth Fablon Private Limited. The outlook is '**Stable**'.

Rationale for the rating

The ratings reflect the group's established track record along with diversified customer base which includes leading cement players, oil marketing company and various government agencies. In addition, the scale of operation of the group is expected to witness an improvement over the near to medium term as their new unit is stabilizing their operations. The group has comfortable financial risk profile marked by healthy net worth and average coverage ratios. However, ratings are constrained by group's high gearing ratios because of debt funded expansion capex plan. Further the group has high working capital requirement on account of elongated receivables and large inventory levels.

About the Company

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.

About the Group

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 in Jhalda, Purulia (West Bengal).

Shree Ram Electrocast Jharkhand Private Limited (SREJPL) was incorporated in October 2010. The company has set up a PP bag manufacturing unit with an installed capacity of 22,000 MTPA in Ranchi, Jharkhand. The unit commenced its operation in March 2022.

The project cost for setting up of newly added facility was revised to Rs 141 Cr from earlier project cost of Rs 167 Cr due to change in scope. SREJPL had availed Rs 95.5 Cr of term loan as against sanctioned limit of Rs 108 Cr and remaining amount was funded through unsecured loan and equity share capital.

Analytical Approach

Acuité has taken a consolidated view of 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 and oil marketing company such as ACC Limited, Ultratech Cement Ltd, Indian Oil Corporation Ltd among others. Apart from supplying Woven sacks/PP bags to cement and OMC sectors, the group caters to government agencies on tender basis. The group has been associated with their key customers almost since inception. Acuité believes that the extensive experience of the promoter would continue to help in the business risk profile of the group going forward.

Expected improvement in scale of operation

The scale of operation of the group stood at healthy levels with sales at Rs 408 Cr in FY22 as against Rs 428 Cr in FY21. The group has enhanced its production capacity by 22,000 MTPA in FY22 through a debt funded capex plan. The group has posted a revenue of Rs 277 Cr till September 2022 (Prov). Hence the group is likely to witness healthy revenue growth in FY23 backed by SREJPL's full year of operation. Acuité believes the scale of operation will improve over medium term because of increased capacity of account of newly added unit along with rising demand for PP bags from cement sector.

Comfortable financial risk profile

The financial risk profile of the group is marked by healthy net worth, high gearing and comfortable debt protection metrics. The net worth of the group stood at Rs 131 crore in FY2022 as compared to Rs.98 crore in FY2021 due to infusion of unsecured loan which is subordinated to external debt. Acuité has treated the same as quasi equity. The gearing of the group stood at 2.01 times in FY22 as compared to 1.27 times in FY21 due to ongoing debt funded capex plan. TOL/TNW also stood high at 2.32 times in FY22 as against 1.40 times in FY21. The group has high reliance on external debt as reflected from its Debt to EBITDA of 8.43 times in FY22. The same is expected to improve in current fiscal year because of healthy EBITDA generation in SREJPL. The Debt to EBITDA levels of above 5.20 times as on Mar'23 may have a negative bias in the rating. Interest coverage ratio (ICR) stood at 2.44 times in FY22 as against 2.47 times in FY2021. The debt service coverage ratio stood at 1.24 times in FY22 as against of 1.35 times in FY21. The net cash accruals against total debt (NCA/TD) stood at 0.06 times in FY22 as compared to 0.12 times in previous year. Acuité believes the financial risk profile of the group will improve over the medium term backed by scheduled repayment of existing term loans.

Moderate profitability margin

EBITDA margin of the group stood at 7.41 percent in FY22 as against 6.00 percent in FY21. In FY22 the group has executed certain government orders where profit margins are higher than its regular or repetitive orders from different private players. The profit margin of the group

depends on revenue mix during the year as the group is also engaged in trading of PP granules. Acuite believes profitability margin is likely to improve in medium term because of high fixed cost absorption backed by healthy revenue growth.

Weaknesses

Working capital intensive nature of operation

The working capital-intensive nature of operations is marked by high gross current asset (GCA) days of 206 days as on Mar'22 FY2022 as compared to 121 days in the previous year. The increase is on account of rise in inventory days to 108 days in FY22 as compared to 59 days in FY21. Debtor days stood at 72 days as March 2022 against 43 days in 2022. Acuite believes that the operations of the group will continue to be working capital intensive over the medium term because of stretched receivables from large corporates.

Rating Sensitivities

- Substantial and sustained revenue growth backed by rise in sales volume in manufacturing segment.
- Improvement in profitability margin and liquidity profile.

Material covenants

None

Liquidity profile: Adequate

The group has adequate liquidity profile reflected from its comfortable net cash accrual of Rs.15 crores in FY22 as against current maturity of Rs.9 crores. Going forward, the net cash accruals are expected to be in the range of Rs 22-Rs26 Cr as against current maturity of around Rs.20 Cr from FY23-FY24. The current ratio had been comfortable at 1.57 times in FY22 as against 1.61 times in previous year. The utilization of fund-based limits which stood at 93 percent during last 8 month ended October 2022. 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 significantly 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 unplanned capex plan or stretched receivables.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	408.72	428.35
PAT	Rs. Cr.	4.16	5.12
PAT Margin	(%)	1.02	1.20
Total Debt/Tangible Net Worth	Times	2.01	1.27
PBDIT/Interest	Times	2.44	2.47

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>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Sep 2021	Bank Guarantee	Short Term	8.23	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	17.75	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	91.00	ACUITE BBB Stable (Reaffirmed)
25 Aug 2021	Bank Guarantee	Short Term	8.23	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	91.00	ACUITE BBB Stable (Reaffirmed)
06 Aug 2021	Cash Credit	Long Term	91.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	9.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.23	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
07 Jul 2020	Bank Guarantee	Short Term	10.00	ACUITE A3+ (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)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.47	ACUITE A3+ Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	76.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.27	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Mar 5 2021 12:00AM	9.25	Mar 30 2026 12:00AM	Simple	15.89	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Mar 5 2021 12:00AM	9.25	Mar 30 2026 12:00AM	Simple	6.35	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Mar 5 2022 12:00AM	9.250	Mar 30 2026 12:00AM	Simple	2.50	ACUITE BBB Stable Assigned

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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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