Press Release

Samarth Ad Protex Private Limited

07 July 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 43.35 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE BBB' (read as ACUITE triple BBB)** and short term of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs. 43.35 crore bank facilities of Samarth Ad Protex Private Limited. The outlook is '**Stable**'.

Samarth Fablon Private Limited (SFPL) was incorporated in 2007 by Mr Bishnu Kumar Agarwala. The company is engaged in manufacturing of Polypropylene (PP) woven sacks and trading of Polypropylene (PP) granules. The company has its own manufacturing unit in Jhalda, Purulia (West Bengal) with an installed capacity of 24000 tons per annum.

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 10500 tons per annum.

Analytical Approach:

Acuité has consolidated the business and financial risk profiles of Samarth Fablon Private Limited with Samarth Ad Protex Private Limited herein referred to as Samarth group. The consolidation is in view of common management, similar line of business and financial linkages in the form of corporate guarantee extended by SFPL to SAPL.

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. SFPL has been associated with their key customers almost since inception.

Healthy financial risk profile

The financial risk profile of the group is marked by moderate net worth, modest gearing and healthy debt protection metrics. The net worth of the group stood at Rs.75.33 crore in FY2020 (Provisional) as compared to Rs.71.80 crore in FY2019. This improvement in Net worth is mainly due to retention of current year profit. The gearing of the group stood at 1.72 times in FY20 (provisional) as compared to 1.56 times in FY19 due to enhancement of working capital limits. The total debt of Rs.128.82 crore in FY2020 (Provisional) consists mainly of short-term loan of Rs.103.60 crore and long-term debt of Rs.25.23 crore. Interest coverage ratio (ICR) stood at 2.23 times in FY20 (Provisional) as against 2.36 times in FY 2019. The debt service coverage ratio stood at 1.29 times in FY2020 as against of 1.46 times in FY2019.The reason for this deterioration is rise in financial cost. The net cash accruals against total debt (NCA/TD) stood at 0.11 times in FY2020 as compared to 0.15 times in previous year. Acuité believes the financial risk profile of the group will remain healthy in medium term backed by addition of quasi equity and absence of debt led capex plan.

Improvement in profitability margin

EBITDA margin of the group had improved to 8.02 percent in FY20 (provisional) as against 7.39 percent in FY19 as revenue contribution from manufacturing activity had increased which has better profit margin compared to trading activity. 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 159 days in FY2020 (Provisional) as compared to 103 days in FY2019. The increase is on account of rise in debtor days to 57 days in FY20 as compared to 38 days in FY19. Inventory days stood at 48 days in FY20 against 40 days in FY19.

Competitive and fragmented nature of operations

The group is operating in competitive and fragmented nature of industry. There are several players engaged in the plastic products manufacturing industry in organized and unorganized sector. Hence, the group might face pricing pressure from other competitors.

Rating Sensitivity

- Sustenance of revenue growth while maintaining profitability
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity profile reflected from net cash accrual of Rs.14.92 crores in FY20(provisional) as against current maturity of Rs.4.42 crores. The current ratio had been comfortable at 1.19 times in FY20 as against 1.18 times in previous year. In addition, utilization of fund-based limits are ranging from 86 percent to 93 percent during last 12 month ended May 2020. Moreover, group has also availed addition line of credit and moratorium for its term loan instalments and interest obligations till August 2020 in order to meet rising working capital requirements. Acuite expects liquidity profile will continue to remain at adequate level in FY21 as there was no disruption in commercial operation during the nationwide lockdown.

Outlook: Stable

Acuité 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 company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Consolidated

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	361.77	266.86
PAT	Rs. Cr.	4.89	-2.28
PAT Margin	(%)	1.35	-.86
Total Debt/Tangible Net Worth	Times	1.56	1.70
PBDIT/Interest	Times	2.36	1.84

About the Rated Entity - Standalone

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	64.11	3.16
PAT	Rs. Cr.	2.43	-4.09
PAT Margin	(%)	3.8%	-129.63

Total Debt/Tangible Net Worth	Times	2.84	3.24
PBDIT/Interest	Times	2.70	1.10

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
- Criteria for consolidated of companies - 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): None

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.70	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Assigned)
Term Loan	Not Available	Not Applicable	April 2023	23.52	ACUITE BBB/Stable (Assigned)
Proposed limit	Not Applicable	Not Applicable	Not Applicable	0.13	ACUITE BBB/Stable (Assigned)

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About Acuité Ratings & Research:
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Registered and Head Office in Mumbai.