

Press Release

First Reliable Industries

November 19, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.13.17 Cr.
Long Term Rating	ACUITE BB/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs. 13.17 crore bank facilities of First Reliable Industries (FRI). The outlook is **'stable'**.

First Reliable Industries (FRI) is a partnership firm established in November-2016 by Mr. Naresh Joshi, Mr. Abhinav Joshi, Mr. Karan Gupta and Mr. Subodh Gupta. The firm is engaged in manufacturing of Polypropylene (PP) and High-Density Polyethylene (HDPE) based woven sack bags and fabrics which find application in packaging for various industries such as chemical, agricultural, cement, fertilizer industry. The manufacturing unit is located at Khanna, Punjab with an installed capacity of 7200 MT per annum (MTPA) as on March 31, 2020 with 90% average utilization. The commercial operations of the plant started from July 06, 2018.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of FRI to arrive at this rating.

Key Rating Drivers

Strengths

• Significant growth in revenue and profitability

The Firm has shown a significant improvement in revenue last year. Operating income grew by 55 percent in the FY2020 over FY2019. Operating Income for FY2020 stood at Rs.33.13 Crore as against Rs.21.29 Crore for the FY2019. This is mainly due to the large number of orders from the state government for supplying subsidized foods packages during the current COVID-19 pandemic. In the current financial year, the demand for the product has increased. The firm has booked revenue of ~Rs.22.00 Crore as of 30th September, 2020.

The EBITDA Margins stood at 13.40 percent for FY2020 as against 10.04 percent in FY2019. The PAT margin stood at 1.19 percent in FY2020 as against (5.76) percent in FY2019.

• Comfortable working capital operations

FRI has comfortable working capital operations marked by Gross Current Assets (GCA) of 126 days in FY2020 as against 141 days in FY2019. The inventory holding period stood at 67 days in FY2020 as against 53 days in FY2019. The receivable period stood at 19 days in FY2020 as compared to 46 days in FY2019. This is mainly due to timely payment from the customers. The firm gets a credit period of up to two weeks from its suppliers. As a result, the average bank limit utilization stood low at ~60 percent for the last six months ended August, 2020.

Acuite believes that the working capital operation will remain comfortable over the medium term due to the payment terms with its customers and suppliers.

Weaknesses

• Average Financial Risk profile

The firm's financial risk profile has remained average marked by moderate net worth and average debt protection metrics. The net worth of the firm stood at Rs.6.58 Crore as on 31 March 2020 as against Rs.5.08 Crore as on 31 March 2019. The gearing level (debt-equity) reduced to 2.55 times as on 31 March 2020

as against 3.86 times as on 31 March 2019. This is mainly due to regular repayment of external borrowings. The coverage indicators are average marked by interest coverage ratio (ICR) stood at 2.49 times in FY2020 as against 1.97 times in FY2019 due to high EBITDA during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.16 times in FY2020 as against 0.05 times in FY2019. Debt to EBITDA stood at 3.77 times in FY2020 as against 9.13 times in FY2019. This is mainly due to high EBITDA during the year. Acuité believes the financial risk profile of the firm will remain average backed by moderate net worth, high gearing and average interest coverage indicators in near to medium term.

• Vulnerability to increasing competition

Polypropylene (PP) woven bag industry is intensely competitive due to low entry barriers, negligible capital and technology requirements, small gestation period, and easy availability of raw materials. The intense competition may continue to restrict scalability of operations and limit the pricing power with suppliers and customers, thereby constraining profitability.

Outlook: Stable

Acuité believes that FRI will maintain a 'Stable' outlook over the medium term owing to its healthy relationship with their client. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenue and profitability while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected elongation in working capital management leading to higher reliance on external borrowings.

Material Covenant

None

Rating sensitivity

- Significant and sustained growth in operating revenues and profitability
- Stretched working capital cycle and deterioration in liquidity position

Liquidity position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.2.66 Crore in FY2020 as against CPLTD of Rs.2.08 Crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.3.71 Crore to Rs.5.61 Crore during FY2021-23 against CPLTD of Rs.2.08 each year for the same period. Firm's working capital operations are comfortable marked by Gross Current Asset (GCA) days of 126 days in FY2020. As a result, the bank limits utilization stood at ~60 percent for six months ending in August, 2020. Firm maintains unencumbered cash and bank balances of Rs.2.31 Crore as on 31 March 2020. The current ratio stands at 1.34 times as on 31 March 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against its debt repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	33.13	21.29
PAT	Rs. Cr.	0.40	(1.23)
PAT Margin	(%)	1.19	(5.76)
Total Debt/Tangible Net Worth	Times	2.55	3.86
PBDIT/Interest	Times	2.49	1.97

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

None

Any other information

Not Applicable

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 (Up to 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/Stable (Assigned)
Term Loan	January-2018	Not Applicable	January-2025	8.73	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.44	ACUITE BB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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