



Press Release
SAFEX INTERNATIONAL LIMITED
November 30, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	65.75	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	4.25	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	70.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**Acuite BBB+**' (read as **Acuite triple B plus**) and a short-term rating of **ACUITE A2+ (read as ACUITE A two plus)** on the Rs. 70.00 Cr bank facilities of Safeflex International Limited (SIL). The outlook is '**stable**'.

Rationale for the rating

The rating assigned takes into account the extensive experience of the promoters in the FIBC industry and the long operational track record of the company of around two decades. Further, the rating factors in the comfortable business risk profile and comfortable capital structure (Debt/Equity: 0.86 times as on March 31, 2023) and debt protection indicators (ICR: 12.19 times and DSCR: 10.18 times as on March 31, 2023). The adequate liquidity position as reflected in the sufficient buffer in the net cash accruals against the current maturities of long term debt, further supports the rating. These strengths are partly offset by working capital intensive nature of operations, susceptibility to fluctuation in raw material price and exposure to intense competition.

About the Company

Incorporated in 2006, Safeflex International Limited (SIL) is engaged in the manufacturing and export of Flexible Intermediate Bulk Carrier (FIBC), Lumber Covers, Container Liners, Agro Nets, Tensile Fabrics, among others in its manufacturing facility located in SEZ Pithampur, Indore. SIL along with its three subsidiaries has a total installed capacity of 34896 MTPA of FIBC and knitted and poly woven products. The company was established by Mr. Jitesh Agarwal having around three decades of experience in polywoven sacks/FIBC industry.

About the Group

Mewad Polymers Private Limited

Incorporated in April 2009, Mewad Polymers Private Limited (MPPL) is engaged in the manufacturing of flexible intermediate bulk containers (FIBC) also known as Jumbo bags for packaging applications. The company commenced operations from November 2015. The manufacturing unit is located in Vadodara in Gujarat and has installed production capacity of 4,800 MTPA. The company's registered office is in Indore, Madhya Pradesh. The current directors of the firm are Mr. Rohit Bhokardankar and Mr. Ghanshyam Kumar Singh.

Hippoflex International Private Limited

Incorporated in 2020, Hippoflex International Private Limited is mainly engaged in the business of Polypropylene Bags. The company's registered office is in Indore, Madhya Pradesh. The current directors of the firm are Mr. Om Prakash Patidar and Mr. Ashok Chourasia.

Incorporated in 2021, Endurafab Private Limited is mainly engaged in the manufacturing of roofing fabrics, lumber covers, garden nets, agro nets, amongst other fabrics. The company's registered office is in Indore, Madhya Pradesh. The current directors of the firm are Mr. Meghdeep Agrawal and Mr. Ghanshyam Kumar Singh.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has consolidated the business and financial risk profile of Safeflex International Limited and three of its subsidiaries – Mewad Polymers Private Limited, Hippoflex Private Limited and Endurafab Private Limited. The consolidation is in the view of common management, operational linkages, financial linkages between the entities and a similar line of business.

Extent of consolidation: Full.

Key Rating Drivers

Strengths

Long track record of operations and extensive experience of management in FIBC industry

Incorporated in 2006, the company has a long operational track record of more than one and a half decade in the FIBCs industry. Further, the promoter, Mr. Jitesh Agarwal has around three decades of experience in the manufacturing of FIBC and poly woven /poly knitted industry. He is ably supported by qualified management team having experience of around two decades in the polymer processing field. This had led company build established relationships with customers and suppliers, thus ensuring swift business operations. Acuite believes that long track of operations of the company and extensive experience of the promoters shall support the business risk profile going forward.

Improvement in profitability margins in FY23 albeit moderation in the scale of operations

The operating income of the group declined to Rs.333.48 Cr in FY23 as compared to Rs.417.23 Cr in FY22 owing to subdued demand from key export destinations such as USA and Europe owing to inflationary pressures and energy crisis in Europe impacting production in key end user industries. The group has achieved a revenue of Rs. 214.17 Cr in Apr'23-Sept'23 and is expected to register ~500 Cr of revenue in FY24 on the back of improving demand from its existing customers. Further, capacity additions in one of the subsidiaries, Endurafab Private Limited for manufacturing Lumber Covers, Container Liners, Agro Nets, Garden Nets, Tensile Fabrics are also expected to drive growth in scale over the medium term. However, stabilization in the operations of Endurafab Private Limited will remain a key rating sensitivity.

However, despite moderation in scale, the group's operating margin improved to 16.05 per cent in FY23 as it has passed on increased raw material costs to its customers. The PAT margin stood at 8.72 per cent in FY23 as compared to 8.24 per cent in FY22.

Healthy financial risk profile

The group's financial risk profile is marked by healthy net worth base, low gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.172.13 Cr as on March 31, 2023 from Rs.143.44 Cr as on March 31, 2022, due to accretion of profits to reserves. Though the gearing has increased, it still stood comfortable at 0.86 times as on March 31, 2023 as against 0.57 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.15 times as on March 31, 2023 as against 0.94 times as on March 31, 2022. Moreover, the strong debt protection metrics is marked by Interest Coverage Ratio of 12.19 times as on March 31, 2023 as against 27.01 times as on March 31, 2022; and Debt Service Coverage Ratio at 10.18 times as on March 31, 2023 as against 7.69 times as on March 31, 2022. The ICR declined in FY2023 as one its subsidiaries, Endurafab Pvt Ltd has got a sanction of term loan during the year for its capex. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.28 times as on March 31, 2023 as against 0.57 times

as on March 31, 2022. Acuité believes that going forward the financial risk profile of the group is likely to be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the group is marked by high GCA days of 178 days in FY2023 as against 133 days in FY2022 due to increase in the inventory period during FY23 (FY23: 87 days and FY22: 54 days). The substantial amount security deposits kept with the government authorities relating to the capex undertaken in one its subsidiaries, Endurafab Pvt Ltd further augmented the GCA days. However, the debtor days stood comfortable at 33 days in FY23 as compared to 36 days in FY22. Acuite believes that the working capital management of the group is likely to remain almost at the same level as evident from the moderate levels of inventory and comfortable debtor collection mechanism.

Vulnerability of profitability to fluctuations in raw material prices and foreign currency exchange rate

Polypropylene granules are the key raw material needed to manufacture FIBC bags. Hence, the company's profitability remains exposed to fluctuations in its prices, which in turn depend on the price of crude oil. It enters into cost plus margin contracts with its customers, mitigating the impact of fluctuating raw material costs to an extent. Safeflex International Limited is exposed to fluctuations in foreign currency exchange rates because of high proportion of export sales in its revenue mix. However, the company hedges its receivables partially, mitigating the risk to an extent.

Rating Sensitivities

- Improvement in revenue growth and profitability margins
- Elongation of working capital cycle

All Covenants

None.

Liquidity Position Adequate

The group has an adequate liquidity position marked by Net Cash Accruals of Rs.42.00 Cr as on March 31, 2023 as against nil long term debt repayments over the same period. Further, the group is expected to generate sufficient net cash accruals to repay its debt obligation. The current ratio stood moderate at 1.34 times as on March 31, 2023. However, the fund-based bank limit remained utilised at 90.85 per cent for last six months ended September 2023. The unencumbered cash and bank balance stood at Rs.7.94 Cr as on March 31, 2023. However, the working capital-intensive management of the group is marked by Gross Current Assets (GCA) of 178 days as on March 31, 2023 as compared to 133 days as on March 31, 2022. Acuité believes that the liquidity position of the group is likely to remain adequate backed by the steady accruals.

Outlook: Stable

Acuité believes that the outlook on the group will be 'Stable' over the medium term on account of the long track record of operations, experienced management, comfortable business risk profile and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	333.48	417.23
PAT	Rs. Cr.	29.09	34.39
PAT Margin	(%)	8.72	8.24
Total Debt/Tangible Net Worth	Times	0.86	0.57
PBDIT/Interest	Times	12.19	27.01

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

ICRA vide its press release dated 21st March 2023, had rated the company to ICRA B+/Stable/A4; Issuer Not Cooperating.

Brickworks vide its press release dated 28th June 2023, had rated the company to BWR BB+/Stable/A3; Issuer Not Cooperating.

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, Acuité 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 :

Not Available

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	29.00	ACUITE BBB+ Stable Assigned
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE BBB+ Stable Assigned
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	23.75	ACUITE BBB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.75	ACUITE A2+ Assigned

*Out of Rs.29 Cr CC limits with SBI, full Rs.29 Cr is the sublimit for EPC.

**Out of Rs.13 Cr EPC limit with HDFC, full Rs.13 Cr is the sublimit for CC.

*** Out of 23.75 Cr EPC limit with Axis bank, Rs.17.75 Cr is the sublimit for CC.

****Out of Rs.1.75 Cr proposed short term bank facility, Rs.0.5 Cr and Rs.1.00 Cr is the Forward Contract Limits from SBI and Axis bank respectively.

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Sakshi Seksaria Analyst-Rating Operations Tel: 022-49294065 sakshi.seksaria@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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