Shri Jagdamba Polymers Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	39.45 (enhanced from Rs.34.90 crore)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed; Outlook revised from Stable to Positive**
Long-term/ Short-term Bank Facilities	38.82 (reduced from Rs.43.00 crore)	**CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive/ A Two)**	**Reaffirmed; Outlook revised from Stable to Positive**
Short-term Bank Facilities	17.25 (reduced from Rs.17.62 crore)	**CARE A2 (A Two)**	**Reaffirmed**
Total	**95.52 (Rupees Ninety-Five Crore and Fifty-Two Lakhs Only)**		

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shri Jagdamba Polymers Limited (SJPL) continue to derive strength from its experienced promoters, SJPL's long track record of operations in woven fabric manufacturing and established relationship with its overseas customers. The ratings also factor growth in its total operating income during FY20 (A; FY refers to period April 1 to March 31) and 9MFY21 (UA) with healthy profitability, comfortable capital structure and debt coverage indicators along with adequate liquidity.

The ratings, however, continue to remain constrained by its modest scale of operations, susceptibility of its profitability to volatile raw material prices and foreign exchange rates, high customer concentration risk and its presence in a fragmented and competitive woven fabric industry which restricts its profitability margin. The ratings also take cognizance of salability risk associated with its recently commissioned expansion project.

Outlook: Positive

The 'Positive' outlook on the long-term rating of SJPL reflects the expectation of ramp up in the production and sales volume from its additional capacity which could lead to further growth in scale of operations along with improvement in profitability as well as debt coverage indicators. The outlook may be revised to 'Stable' if the company is unable to realize the envisaged benefits from the capex and there is lower than expected utilization of enhanced capacities.

Rating Sensitivities

Positive Factors:

- Increase in scale of operations with Total Operating Income (TOI) of Rs.350-450 crore through geographical and customer diversification while maintaining PBILDT margin in the range of 18-20% on sustained basis
- Maintaining its overall gearing below 0.50 times and its operating cycle at around 60 days on a sustained basis

Negative Factors:

- Decline in PBILDT margin below 12% on sustained basis
- Deterioration in debt coverage indicators with interest coverage falling below 4 times and total debt/gross cash accruals of more than 4 times on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter: SJPL was promoted by Mr. Ramakant Bhojnagarwala, a first generation entrepreneur who has nearly five decades of experience in the textile and polymer industry. He monitors the overall operations of SJPL and plays an active role in managing its day-to-day operations. He is assisted by his son Mr. Hanskumar R. Agarwal, who is a graduate and has nearly two decades of experience in technical textile industry. The promoters are well supported by an experienced and qualified team of professionals. Moreover, promoters have also set-up another company; Shakti Polyweave Private Limited (SPPL; rated CARE BBB+; Positive/ CARE A2) which is also engaged in similar line of operations. Both these companies operate under common management and have business linkages. While SJPL is publicly listed on the stock exchange, SPPL is an unlisted closely-held company.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Established and long track record of operations with diverse industry application of its products: SJPL started its operation in May 1985, with manufacturing of plastic woven fabrics and bags and has track record of more than three decades in technical textile industry. SJPL's product portfolio includes polypropylene (PP)/ Polyethylene (PE) woven bags, fabric, Siltfence, Flexible Intermediate Bulk Containers (FIBC), geo-textile, ground cover, etc. which find application in packaging (storage and transportation of powdered, granulated or bulk products), infrastructure (soil erosion control, earth stabilization and act against biological degradation) and agriculture industry (unwanted weed suppression, soil moisture preservation, erosion control, resistance against attack by bacteria and ground insect). Capacity utilisation of SJPL's installed capacity remained at 85-90% over past three years ended FY20.

Established relationship with customers: Majority of SJPL's production is exported to countries such as United Kingdom (UK), United States of America (USA), China and some other European and Asian countries. SJPL has been successful in establishing a stable customer base in these countries. Although, it does not have any long-term agreements in place with its customers, SJPL has been able to secure repeat orders from its customers due to conformity to quality standards and specifications which mitigate the client concentration risk to a certain extent.

Growth in total operating income (TOI) during FY20 (A) and 9MFY21 (UA) with healthy profitability and strong return ratio: TOI of SJPL grew by nearly 11% during FY20 on y-o-y basis backed by 6% growth in sales volume coupled with higher trading sales. PBILDT margin which has improved from 11.87% in FY16 to 18.16% in FY19, improved further by 150 bps to 19.86% during FY20 on the back of lower raw material cost and largely stable average sales realization. PAT margin also improved in line with improvement in PBIDLT margin along with relatively stable interest cost and depreciation charge. Furthermore, the return indicators of the company continue to remain strong marked by ROCE and RONW of around 38% and 35% respectively during FY20.
During 9MFY21, TOI of the company grew by 22% over 9MFY20. Moreover, PBILDT margin improved by 382 bps on Y-o-Y basis and continued to remain healthy at 22.83% during 9MFY21. Demand of company's products was less impacted by covid-19 due to varied applications across construction, infrastructure, and packing industries.

Comfortable capital structure with healthy debt coverage indicators: The total debt of SJPL increased from Rs.9.53 crore as on March 31, 2019 to Rs.41.10 crore as on March 31, 2020 mainly due to term debt availed for expansion project and higher working capital borrowings. However, capital structure of the company continues to remain comfortable marked by overall gearing ratio and TOL/ TNW of 0.45 times and 0.52 times respectively as on March 31, 2020. The debt coverage indicators marked by interest coverage continue to remain comfortable at 28 times during FY20 (FY19:34 times) while total debt to GCA increased from 0.38 years in FY19 to 1.34 years in FY20 backed by increase in total debt.

Key Rating Weaknesses

Modest scale of operations and high customer concentration risk: Despite growth in total operating income (TOI), the scale of operations of SJPL continued to remain modest marked by TOI of Rs.210 crore during FY20 and net worth base of Rs.92 crore as on March 31, 2020. Moreover, revenue concentration from top 5 customers continued to remain high at 61% of TOI during FY20 (FY19: 63%). Therefore, continuous relationship with existing customers remains crucial for credit perspective.

Saleability risk associated with recently commissioned expansion project: SJPL has expanded its capacity from 12,000 MTPA to 20,500 MTPA within envisaged cost of Rs.46 crore. SJPL started commercial production from phase-I in December 2020 while the phase-II was commissioned in Q3FY21. The expanded capacity should provide further opportunity to grow its scale of operation. SJPL's products have high export potential considering growing demand from agriculture and infrastructure sectors. SJPL has already established customers in overseas market which limits saleability risk to certain extent. However, early ramp up in production and sales volumes and generation of envisaged returns from the project remains crucial for credit perspective.

Profitability susceptible to raw material price volatility and foreign exchange rate fluctuation: SJPL's main raw material comprises plastic granules, which are crude derivatives. Hence, any sharp change in international crude oil prices and foreign exchange rate impacts raw material pricing for the company. The company normally follows order backed purchase for raw materials thereby insulating profitability from raw material price fluctuation risk to an extent. Further, SJPL generates substantial part of its total income from export (82% of TOI during FY20) which exposes it to the risk associated with forex rates. However, the risk is mitigated partially on account of the natural hedge available in the form of import of raw material (~ 42% of the total cost of raw material in FY20). Moreover, company avails foreign currency borrowings against its exports which also provides natural hedge. Company also covers forex exposure through forward contracts depending upon the market scenario.

Competitive woven sacks industry and limited bargaining power with large supplier restricts the profitability: The industry is fragmented in nature due to the low entry barriers on account of low initial capital investment and ease of

accessibility to technology. This results in increase in competition especially in the domestic market. Moreover, there are limited suppliers of its key raw material (plastic granules) in the domestic market due to the oligopolistic nature of the supply market, which results in limited bargaining power for SJPL. However, in order to partially mitigate the concentration risk, the company also sources the raw material from international suppliers.

Liquidity: Adequate
SJPL's liquidity remains adequate marked by strong current ratio of 2.37 times as on March 31, 2020 and low working capital limit utilization of 14% during past 12 months ended December 2020. Operating cycle elongated over past two years ended FY20 due to increase in collection period and inventory holding; albeit it continued to remain moderate at 60 days during FY20. Moreover, SJPL has relatively low term debt repayment obligation of Rs.6-7 crore per annum during next two years as against growing cash accruals which remained at Rs.30 crore during FY20 indicating adequate cushion in its debt servicing. Further, SJPL had unencumbered cash and bank balance of Rs.13.15 crore as on March 31, 2020. Furthermore, SJPL did not avail moratorium on its debt servicing for any of its bank facilities, the option which was available as a Covid-19 relief measure as per RBI's policy, which also indicates its adequate liquidity. SJPL's unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Incorporated in May 1985, SJPL was promoted by Mr. Ramakant Bhojnagarwala and his family members. SJPL is engaged in manufacturing of PP/ PE woven fabric, bag and various technical textile products which find its application in packaging, agriculture and infrastructure industries. As on December 31, 2020, SJPL had installed capacity of 20,500 Metric Tons per annum (MTPA) of woven fabrics and bags from its three units situated at Dholka, Dist: Ahmedabad. Moreover, as on December 31, 2020, SJPL had windmill capacity of 3.6 MW.

(Rs. Crore)

Brief Financials of SJPL	FY19 (A)	FY20 (A)
Total operating income (TOI)	190.47	210.48
PBILDT	34.59	41.39
PAT	21.87	27.33
Overall Gearing (times)	0.15	0.45
Interest coverage (times)	33.66	27.77

A: Audited

During 9MFY21, as per un-audited results, SJPL reported a PAT of Rs.27.04 crore on TOI of Rs. 189.96 crore as against PAT of Rs.19.95 crore on TOI of Rs.155.25 crore during 9MFY20.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Complexity level of various instruments rated for this company: Please refer Annexure-3
Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2027	37.45	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	2.00	CARE BBB+; Positive
Non-fund-based - ST-Credit Exposure Limit	-	-	-	2.25	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A2
Fund-based/Non-fund-based-LT/ST	-	-	-	38.82	CARE BBB+; Positive / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	37.45	CARE BBB+; Positive	-	1)CARE BBB+; Stable (25-Mar-20)	1)CARE BBB+; Stable (25-Feb-19)	1)CARE BBB; Stable (28-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (25-Mar-20)	1)CARE BBB+; Stable (25-Feb-19)	1)CARE BBB; Stable (28-Dec-17)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	2.25	CARE A2	-	1)CARE A2 (25-Mar-20)	1)CARE A2 (25-Feb-19)	1)CARE A3+ (28-Dec-17)
4.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2	-	1)CARE A2 (25-Mar-20)	1)CARE A2 (25-Feb-19)	1)CARE A3+ (28-Dec-17)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	38.82	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (25-Mar-20)	1)CARE BBB+; Stable / CARE A2 (25-Feb-19)	1)CARE BBB; Stable / CARE A3+ (28-Dec-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based/Non-fund-based-LT/ST	Simple
4.	Non-fund-based - ST-Credit Exposure Limit	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Krunal Modi
Contact No. – +91-79-40265614 / +91-8511190084
Email: krunal.modi@careratings.com

Relationship Contact
Deepak Prajapati
Contact no. – +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

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