

Somi Conveyor Beltings Limited (Revised)

September 17, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term / Short Term Bank Facilities	20.00 (Enhanced from 18.00)	CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable/ A Four Plus)	Reaffirmed
Short Term Bank Facilities	26.00 (Enhanced from 20.00)	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	46.00 (Rs. Forty-Six Crore Only)		

Details of facilities in Annexure -1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Somi Conveyor Beltings Limited (SCBL) continue to remain constrained on account of its modest scale of operations in a competitive and fragmented conveyor belt industry with moderate debt coverage indicators and stretched liquidity position during FY21 (FY; refers to the period April 1 to March 31). The ratings, further, continue to remain constrained on account of volatility associated with raw material prices and foreign exchange rate.

The ratings, however, continue to derive strength from wide experience of the promoters in the industry with established track record of operations, diversified and reputed customers base, moderate profitability margins and comfortable capital structure.

Rating Sensitivities:**Positive Factors:**

- Growth in scale of operations marked by an increase in the Total Operating Income (TOI) of above Rs.80 crore with PBILDT margin of 17% or above
- Improvement in liquidity position from the current level with operating cycle less than 200 days.
- Sustaining capital structure with overall gearing ratio below unity

Negative Factors:

- Decline in scale of operations and profitability by more than 20% with PBILDT margin less than 10%
- Deterioration in capital structure with an overall gearing of above unity
- Deterioration in debt coverage in marked by interest coverage below 2 times

Detailed description of key rating drivers**Key Rating Weaknesses*****Modest scale of operations in highly competitive industry***

The scale of operations of SCBL continued to remain modest at Rs.47.03 crore during FY21 and in line with previous year's TOI of Rs.46.72 crore. The conveyor belt industry is highly competitive with presence of few large players and many small players in the industry. The company faces stiff competition from well established players both in domestic market and international market.

Moderate debt coverage indicators

The debt coverage indicators of the company deteriorated as marked by total debt to GCA (TDGCA) of 10.44 years as on March 31, 2021 as against 6.83 years as on March 31, 2020 due to increase in total debt level led by increase in the amount of LC backed creditors. Further, interest coverage stood moderate at 2.02 times in FY21 which deteriorated from 2.31 times in FY20 on account of marginal decline in PBILDT level.

Susceptibility of profitability to volatility in raw material prices and foreign currency fluctuation risk

Majority of the raw materials required by SCBL are highly volatile and hence SCBL's profitability is susceptible to sudden changes in prices of raw material. Further, SCBL is exposed to foreign exchange fluctuation risk as the company also exports the products. SCBL keeps its export receivables un-hedged which exposes it to foreign currency fluctuation risk.

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

Key Rating Strengths***Experienced management team***

Mr. O. P. Bhansali, Chairman & Managing Director, who have more than 30 years of experience in the conveyor belt industry looks after overall business activities who is assisted by his sons Mr. Vimal Bhansali and Mr. Gaurav Bhansali having healthy experience in same line of business. Further, top management is assisted by senior level management team and functional heads of Marketing, Finance, Operations, Commercial and Administration.

Established track record of operations with diversified and reputed customer base

The company has established its track record of operations in the industry being present more than two decades. It has established customer and supplier base in the market. The company mainly gets the orders from reputed customers namely Bharat Heavy Electricals Limited (BHEL), Rajasthan Rajya Vidyut Utpadan Nigam Ltd (RRVUNL), Maharashtra State Power Generation Company (MAHAGENCO), Steel Authority of India Limited (SAIL), National Thermal Power Corporation Limited (NTPC), National Mineral Development Corporation (NMDC) as well as from cement manufacturer and metal industry.

Moderate profitability position

During FY21, the profitability position of SCBL as marked by PBILDT margin declined however continued to remain moderate at 14.20% during FY21 as compared to 16.44% during FY20 due to increase in raw material costs (Nylon Fabric) incurred during the year - due to spread of worldwide COVID19 pandemic. Resultantly, PAT margin also declined but continued to remain moderate at 3.75% during FY21 as against 5.20% reported during FY20.

Comfortable capital structure

The capital structure of the company stood comfortable with an overall gearing of 0.53 times as on March 31, 2021, marginally deteriorated from 0.47 times as on March 31, 2020 owing to increase in the amount of LC backed creditors from Rs.5.18 crore as on March 31, 2020 to Rs.10.86 crore as on March 31, 2021.

Impact of COVID-19 on business operations of SCBL

SCBL is into manufacturing of manufacturing of rubber and steel cord conveyor belts which does not comes under the purview of essential commodity. The operations were halted from March 23, 2020 to April 20, 2020, due to nation-wide lockdown owing to COVID-19 pandemic. Once SCBL resumed operations from April 21, 2020, SCBL had faced difficulty in labour availability as majority of labourers were migrated due to COVID19. However, since July 01, 2020 SCBL had not faced any major labour or material shortage. Although SCBL receives orders from its customers, the demand during Q1FY21 remained lower than envisaged owing to the COVID-19 pandemic.

Liquidity Analysis: Stretched

Liquidity position of SCBL continued to remain stretched during FY21 led by elongated working capital cycle of 510 days as against 454 days during FY20 mainly due to increase in average collection period days as majority of orders completed during March 2021. The average working capital utilization for the past 12 months ended August 31, 2021 remained high at ~95%. The generated net cash flow from operations remained in similar line with previous year at Rs.4.95 crore during FY21. Cash and bank balance remained low at Rs.0.55 crore as on March 31, 2021. Furthermore, GCA level remained comfortable at Rs.3.17 crore during FY21 as against principle debt repayments of Rs.1.95 crore arising in FY22.

SCBL has availed moratorium of 6 months from March 2020 to August 2020 for its cash credit interest providing liquidity cushion in the short term. SCBL had also availed Common Covid Emergency Credit Line (CCECL) of Rs.2.00 Crore and Guaranteed Emergency Credit Line (GECL) of Rs.3.67 crore, which is fully disbursed.

Analytical Approach: Standalone**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Jodhpur (Rajasthan) based Somi Conveyor Beltings Limited (SCBL) was incorporated in 2000 and is engaged in the manufacturing of rubber and steel cord conveyor belts. The company manufactures various grades of conveyor belts used for industrial applications including material handling and transportation in various industries like mining, power, cement, fertilizer, steel and sugar among others. SCBL caters to the domestic as well as the export market under the brand name 'SOMIFLEX'. The company has two plants located at Sangaria and Tanwara, Jodhpur certified as ISO 9001: 2008 for quality management systems.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	46.72	47.03
PBILDT	7.68	6.68
PAT	2.43	1.76
Overall gearing (times)	0.47	0.53
Interest coverage (times)	2.31	2.02

A: Audited

SCBL has reported TOI of Rs.5.34 crore for Q1FY22(Unaudited) with operating profit of Rs.1.30 crore and net profit of Rs.0.16 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments/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/ ST-Cash Credit	-	-	-	20.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-ILC/FLC	-	-	-	8.00	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	18.00	CARE A4+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	20.00	CARE BB+; Stable /	-	1)CARE BB+; Stable / CARE A4+ (30-Mar-21)	1)CARE BB+; Stable /	1)CARE BB+; Stable / CARE A4+; ISSUER NOT

				CARE A4+		2)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (29-Apr-20)	CARE A4+ (24-Jul-19)	COOPERATING* (31-Dec-18)
2.	Non-fund-based - ST-ILC/FLC	ST	8.00	CARE A4+	-	1)CARE A4+ (30-Mar-21) 2)CARE A4+; ISSUER NOT COOPERATING* (29-Apr-20)	1)CARE A4+ (24-Jul-19)	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)
3.	Non-fund-based - ST-Bank Guarantees	ST	18.00	CARE A4+	-	1)CARE A4+ (30-Mar-21) 2)CARE A4+; ISSUER NOT COOPERATING* (29-Apr-20)	1)CARE A4+ (24-Jul-19)	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)

Annexure 3: Covenants of rated instrument/facility: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-ILC/FLC	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.

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About CARE Ratings:

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