

SNJ Synthetics Limited

January 19, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	32.97 (Reduced from 34.01)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	17.30 (Enhanced from 12.55)	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	50.27 (Rs. Fifty Crore and Twenty-Seven lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to the bank facilities of SNJ Synthetics Limited (SSL) is on account of susceptibility to volatile raw material prices, leveraged capital structure with working capital intensive nature of operations, elongated operating cycle, stretched liquidity and moderate debt coverage indicators. The ratings also factor decline in total operating income during FY20 (Prov.) (FY refers to the period April 01 -March 31) and disruptions caused by COVID-19 in Q1FY21. The ratings, however, derive comfort from the long-standing experience of the promoters, strong and reputed clientele with diversified product solutions in PET preforms, established relationship with suppliers and improved profitability albeit decline in sales during FY20(Prov.).

Rating sensitivities:

Positive Factors:

- ✓ Ability of the company to improve scale of operation y-o-y with TOI of the company increasing beyond Rs. 200 crore while maintaining a stable PBILDT margin of 5% or above on a sustained basis.
- ✓ Improvement in overall gearing to below 1.5x in future and interest coverage ratio improving to 2x or above.
- ✓ Ability to efficiently utilise working capital requirement with average utilisation of WC limits falling below 70%.

Negative Factors:

- ✗ Decline in the TOI or profit levels of the company by more than 20%, in the future years, on account of volatility in raw material prices.
- ✗ Operating cycle elongating significantly beyond the existing level, in the future years.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in operational performance and Total operating Income (TOI) during FY20

The operational performance declined in FY20 because of weak demand from the market. The capacity utilization for FY20 (Prov.) declined to 51.88% from 66.49% in FY19 as the production levels declined by 14.24% from 15,124 MT in FY19 to 12,970 MT in FY20 due to overall lukewarm industry growth of PET bottles. Accordingly, the total operating income (TOI) of the company declined by 26.76% during FY20 (Prov.) to Rs. 149.08 crore as against Rs. 203.55 crore during FY19. Further, during Q1FY21, COVID induced lockdown along with significantly lower demand or consumption of cold beverages (and thus PET bottles) during the summer season resulted in subdued operational performance of the company.

Elongated operating cycle

The company operates in a working capital intensive industry characterised by high inventory holding and moderately stretched collection period, therefore the requirement of working capital limits usually remains high. The company has high inventory holding period as it procures raw materials primarily from domestic market on quarterly basis according to the estimated demand from its clients. The average inventory days increased to 87 days during FY20 from 59 days during FY19 as the company stocked the inventory when the price of raw materials were low. The collection period continues to remain at 41 days as the company provides 1-2 months' credit period to its customers, as per the industry norms while it need to pay its creditors within a months' time. Due to the aforementioned reason, the operating cycle of the company elongated to 89 days in FY20 from 71 days in FY19. Also, the average working capital utilization remained high at 99%.

Susceptibility to volatile raw material prices

The major raw materials used in manufacturing are primarily petroleum products which in turn are dependent on international crude oil prices. The raw material cost as a percentage of net sales was ~72% during FY20 (~76% during FY19), hence SSL is exposed to volatility in crude oil prices as any increase/decrease directly affects the cost of the raw materials which also impacts the demand for the petro based products across the industry. Further, prices of crude oil are volatile in nature and are driven by the demand supply scenario prevailing on a particular day and also by the global prices which affect the profitability of the company.

Leveraged capital structure and moderate debt coverage indicators

The capital structure of the company continues to remain leveraged albeit improvement in the overall gearing to 2.21x as on March 31, 2020 from 2.38x as on March 31, 2019 on account of scheduled repayment of term loan along with accretion of the profit to the networth. The PBILDT interest coverage ratio of the company declined to 1.57x during FY20 as against 2.08x during FY19 due increase in high interest expense during FY20. The debt coverage indicators such as total debt/GCA and total debt/PBILDT also deteriorated to 14.88x and 5.13x during FY20 as against 8.15x and 4.26x during FY19 respectively due to decrease in GCA and PBILDT levels during FY20.

Industry Outlook

India is amongst the fastest growing petrochemicals markets in the world. Petrochemicals, which comprise of plastic and a host of other chemicals, are downstream hydrocarbons derived from crude oil and natural gas. The value additions in the petrochemicals chain offer immense possibilities and cater to the need of textiles and clothing, agriculture, packaging, infrastructure, healthcare, furniture, automobiles, information technology, power, electronics and telecommunication, irrigation, drinking water, construction and a host of other articles of daily and specialized usage amidst other emerging areas. Petroleum based plastics finds wide application in packaging. PET plastic is used for plastic bottles that are used for soft drinks, juice, water which provides the advantage of great resistance to many solvents, clear and smooth surfaces.

Key Rating Strengths**Improved profitability albeit decline in sales during FY20**

Although the Total Operating Income (TOI) of the company declined in FY20, the PBILDT margin improved from 10.00% for FY19 to 11.07% for FY20 (Prov.) because of higher proportionate decline in cost of raw materials as compared to decline in sales realizations. The demand for PET bottles is directly linked with the raw material prices (Crude oil prices) which reduced by 30% in FY20 as compared to FY19 which impacts the company's profitability. However, the PAT level declined to Rs. 1.80 crore in FY20 (Prov.) as against Rs. 3.28 crore in FY19 due to increase in interest expense.

Strong and reputed clientele with diversified product solutions in PET preforms

The company's clientele consists of reputed brands such as Varun Beverages Ltd, Pepsico India Holdings Pvt Ltd, Bisleri International Pvt Ltd, Allied Blenders and Distilleries Pvt Ltd, IRCTC Ltd etc. The company has a diversified product portfolio that includes, manufacturing of pre-forms for water, hot-filled beverages and carbonated soft drinks with varying neck dimensions and blown bottles with wide neck. The company also manufactures packing solutions to pharmaceuticals and FMCG segments.

Experienced promoters and management team

Mr. Sanjay Jalan, Managing Director and promoter of the company has more than 25 years of experience in the manufacture of Thermoplastics. The promoters look after day to day operations of the company supported by a team of professionals. The management is ably supported by a team of professionals down the line. Also, the promoters are resourceful and have been supporting business operations from infusing funds in the form of unsecured loans in the company.

Ease in raw material availability on account of established relationship with suppliers

Over the years, the company has established good relationships with its suppliers which ensure availability of raw material. Major suppliers for SSL are Reliance Industries Limited and Dhunsari Petrochem and Tea Limited catering to around 70% of SSL's raw material requirements. Generally SSL enters into annual contracts with its suppliers for sourcing of raw materials in bulk orders which also helps the company to negotiate a better pricing.

Liquidity: Stretched

The liquidity position of the company is stretched characterized by highly utilised working capital limits and modest balance of Rs. 0.29 crore as on March 31, 2020 (Prov.). The company's bank limits are utilized to the extent of 99% for the 12 months ended in October, 2020. Further, the company has availed a demand loan of Rs. 9.46 crore in lieu of Covid-19, also six months moratorium with respect to interest on term loan repayment from March, 2020 to August 2020 was availed by the company. However, the liquidity is supported by positive cash flows from operations amounting to Rs. 16.10 crore along with an above unity current ratio as on March 31, 2020.

Analytical approach: Standalone

Applicable criteria:

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

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

[CARE's Methodology for Manufacturing Companies](#)

[Rating Criteria for Short Term Instruments](#)

[Financial ratios - Non Financial Sector](#)

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

About the Company

Incorporated as public limited company in April 1998, SNJ Synthetics Limited (SSL) is engaged in manufacturing of Poly Ethylene Terephthalate (PET) preforms and bottles. SSL has an ISO: 9001 certified PET perform plant located at Bollaram Industrial Estate in Hyderabad with an installed capacity of 25,000 MTPA and built up area of 125000 sq. feet. Mr. Sanjay Jalan, chief promoter of the company, has more than 25 years of experience in the manufacturing of thermoplastics. The company's clientele consists of reputed brands such as Pepsico India Holdings Pvt Ltd, Varun Beverages Ltd, Bisleri International Pvt Ltd, Allied Blenders and Distilleries Pvt Ltd, IRTC Ltd etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (Prov.)
Total operating income	125.70	203.55	149.08
PBILDT	17.09	20.35	16.50
PAT	3.31	3.28	1.80
Overall gearing (times)*	2.48	2.38	2.21
Interest coverage (times)	1.95	2.08	1.57

*A-Audited; Prov.- Provisional; *unsecured loans have been considered as a part of debt.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Term loan 1-August 2021 and Term loan 2-May 2022	4.97	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	26.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	12.00	CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	-	0.30	CARE A4
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	-	2.00	CARE BB+; Stable
Non-fund-based - ST-Forward Contract	-	-	-	-	5.00	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 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	4.97	CARE BB+; Stable	-	1)CARE BB+; Stable (22-Oct-19)	1)CARE BB; Positive (28-Mar-19)	1)CARE BB; Stable (26-Mar-18) 2)CARE BB; Stable (03-May-17) 3)CARE BB; Stable (10-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	26.00	CARE BB+; Stable	-	1)CARE BB+; Stable (22-Oct-19)	1)CARE BB; Positive (28-Mar-19)	1)CARE BB; Stable (26-Mar-18) 2)CARE BB; Stable (03-May-17) 3)CARE BB; Stable (10-Apr-17)
3.	Non-fund-based - ST-Letter of credit	ST	12.00	CARE A4	-	1)CARE A4 (22-Oct-19)	1)CARE A4 (28-Mar-19)	1)CARE A4 (26-Mar-18) 2)CARE A4 (03-May-17) 3)CARE A4 (10-Apr-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	0.30	CARE A4	-	1)CARE A4 (22-Oct-19)	1)CARE A4 (28-Mar-19)	1)CARE A4 (26-Mar-18) 2)CARE A4 (03-May-17) 3)CARE A4 (10-Apr-17)
5.	Fund-based - LT-Packing Credit in Foreign Currency	LT	2.00	CARE BB+; Stable	-	1)CARE BB+; Stable (22-Oct-19)	1)CARE BB; Positive (28-Mar-19)	1)CARE BB; Stable (26-Mar-18)

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
								2)CARE BB; Stable (03-May-17) 3)CARE BB; Stable (10-Apr-17)
6.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A4	-	1)CARE A4 (22-Oct-19)	1)CARE A4 (28-Mar-19)	1)CARE A4 (26-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: 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-Cash Credit	Simple
2.	Fund-based - LT-Packing Credit in Foreign Currency	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Forward Contract	Simple
6.	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

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