

Standard Fireworks Private Limited

March 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	40.00	CARE A; Stable	Reaffirmed
Short-term bank facilities	30.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Standard Fireworks Private Limited (SFPL) continue to derive strength from strong brand presence of SFPL in fireworks industry, supported by an established dealership network across India, long track record, integrated operations, healthy margins, and strong capital structure and liquidity. However, ratings are constrained by competition from imports and large unorganised domestic segment, hazards involved in manufacturing fireworks and associated risks despite precautions taken by the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scaling up operations with operating income above ₹400 crore with PBILDT margin above 30% on a sustained basis.
- Improving collection period and improving operating cycle to less than 150 days.

Negative factors

- Major debt-funded capex plan, deteriorating gearing above 0.50x.
- Adverse regulatory actions on using crackers by the Government, reducing sales below ₹150 crore.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that SFPL will continue benefitting from dominant market position and well-established dealership in the fireworks industry. The company is expected to maintain its comfortable financial risk profile with minimum reliance on debt.

Detailed description of key rating drivers:

Key strengths

Long track record and integrated operations

SFPL has been in the firework business for over four decades and has been carrying out operations with high degree of safety. The company's operations are integrated with firework production units, raw material (gun powder, tubes, cones) production units, fuse production units, printing, and packaging units.

SFPL's strong brand presence in the fireworks industry and an established dealer network

SFPL is the leading fireworks manufacturer in India. The company enjoys strong brand recognition for its products, including its flagship brand 'Peacock'. Over the years, it has created a strong dealer network, predominantly in the southern part of the country. The company has a strong marketing network with over 2,800 dealers, enabling extensive reach for its products.

Growth in income and volume in FY23 and 9mFY24

The operating income improved to ₹220.04 crore in FY23 from ₹173.03 crore in FY22, backed by increased production and sales with better demand for green crackers post COVID-19 pandemic. In 9mFY24, the total income stood at ₹171.08 crore with growth of 10.60% over 9mFY23. Despite the increase in raw material prices and strict regulations, the company has been able to sustain profitability margins with increased sales considering better demand for products. The PBILDT margin improved to 31.87% in FY23 from 29.48% in FY22 due to improved sales volume and sale of green crackers.

Strong financial risk profile with comfortable solvency indicators

The capital structure continued to remain strong with an overall gearing of 0.05x as on March 31, 2023 (PY: 0.05x) due to minimal reliance on working capital borrowings supported by free cash balance of ₹264.35 crore as on March 31, 2023 (PY: ₹169.20 crore). The company does not have term loans as on date. Debt coverage metrics also stood strong, marked by total debt to gross cash accruals (GCA) of 0.36x as on March 31, 2023, and interest coverage of 44.28x in FY23.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE Ratings Ltd.'s publications.

Key weaknesses

Extended operating cycle; however, improved in FY23

The company's operating cycle is elongated at 292 days in FY23, despite improving from 373 days in FY22. In FY23, inventory holding reduced from 155 days in FY22 to 126 days in FY23. Owing to better demand for green crackers, the company had booked orders mostly against advance rather than providing extended credit. As a result, collection period which stood high at 302 days in FY21 improved to 236 days in FY22 and 182 days in FY23.

Hazardous nature of business and associated regulatory risks

Sivakasi is the largest producer of fireworks in India, with nearly 85% of the country's requirement being produced in this town. Significant part of the industry remains unorganised and is a cottage industry, with most of work done by hand in small sheds or at homes. Moreover, competition from the unorganised sector due to low entry barriers, environmental issues arising from noise and air pollution, and hazardous nature of the industry pose a challenge to the company's operations with instances of ban on cracker sale in the country over the past three years.

Liquidity: Strong

Liquidity is marked by strong accruals against nil repayment obligations with free cash and liquid investments worth ₹264.35 crore as on March 31, 2023. Of the above, ₹253 crore are held in fixed deposits of maturity less than 12 months and carried interest rate of around 7.50% per annum, while the rest is held in current accounts and cash-in-hand. The company's inventory is usually high during year-end, as it gradually starts building inventory for the Diwali season and sales during off-season are low as compared to the sales in the seasonal period. SFPL has been sanctioned working capital limits of ₹70 crore and average utilisation stood low at 27.24% (PY: 32%) for 12-months ended December 2023. Its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next few years.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

SFPL was established in 1942 as a partnership firm by Rajarathnam, Chelladhurai, Sankaralingam, and Arunachalam. It was converted to a private limited company in 1977. The firm was initially engaged in producing safety matches, and subsequently, entered the fireworks manufacturing business. SFPL sells firework products under its flagship brand 'Peacock', manufactured in production units in and around Sivakasi, Tamil Nadu.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	9mFY24 (UA)
Total operating income	173.03	220.04	171.08
PBILDT	51.01	70.13	52.37
PAT	27.73	48.17	34.43
Overall gearing (times)	0.05	0.05	NA
Interest coverage (times)	6.49	44.28	22.19

A: Audited UA: Unaudited; NA- Not Available; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for last three years: Please refer to Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE A; Stable
Fund-based - ST-Working Capital Demand loan		-	-	-	30.00	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (25-Jan-22)	1)CARE A-; Stable (24-Feb-21)
2	Fund-based - LT-Cash Credit	LT	40.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-23)	1)CARE A-; Stable (25-Jan-22)	1)CARE A-; Stable (24-Feb-21)
3	Fund-based - ST-Working Capital Demand loan	ST	30.00	CARE A2+	-	1)CARE A2+ (21-Mar-23)	1)CARE A2 (25-Jan-22)	1)CARE A2 (24-Feb-21)

*Long term / Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities:

Not applicable

Annexure-4: Complexity level of instruments rated

Sr No	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Working Capital Demand loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of entities consolidated

Not applicable

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Sandeep P Director CARE Ratings Limited Phone: 914428501002 E-mail: sandeep.prem@careedge.in</p> <p>Naveen S Assistant Director CARE Ratings Limited Phone: 914224502305 E-mail: naveen.kumar@careedge.in</p> <p>S. Bhavasruthini Analyst CARE Ratings Limited E-mail: S.Bhavasruthini@careedge.in</p>
---	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**