

## Standard Fireworks Private Limited

February 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	25.00 (Reduced from 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 SFPL's strong brand presence 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 elongated operating cycle, 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 profit before interest, lease rentals, depreciation, and taxation (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.
- Exposure to the group entities leading to stretch in liquidity and elongation in operating cycle.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes 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 country's southern part. The company has a strong marketing network with over 1,200 dealers, enabling extensive reach for its products.

##### Growth in income and volume in FY24 and 9MFY25

The operating income improved from ₹206.80 crore in FY23 to ₹226.11 crore in FY24 with year-over-year (y-o-y) growth of 9.34% and compound annual growth rate (CAGR) of 18.39% for the last three years ended FY24 due to integrated operations and better sales volume and realisations considering better market demand. The PBILDT margin moderated from 27.51% in FY23 to 23.87% in FY24 due to increase in raw material costs which could not be entirely passed on to customers. However, the PBILDT margin improved to 25.80% in 9MFY25.

##### Strong financial risk profile with comfortable solvency indicators

The capital structure continued to remain strong with an overall gearing of 0.06x as on March 31, 2024 (PY: 0.05x), due to minimal reliance on working capital borrowings supported by free cash balance of ₹337.35 crore as on March 31, 2024 (PY:

<sup>1</sup>Complete definition of ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE Ratings Limited's publications.

₹264.35 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 (TD/GCA) of 0.42x as on March 31, 2024, and interest coverage of 17.84x in FY24. Adjusting for exposure to subsidiaries, adjusted overall gearing stood at 0.07x (PY: 0.06x) as on March 31, 2024.

### Key weaknesses

#### Extended operating cycle

The company's operating cycle is elongated at 263 days in FY24, despite improving from 292 days in FY23. In FY24, inventory holding reduced from 126 days in FY23 to 120 days in FY24. Owing to better demand for green crackers, the company had booked orders mostly against advance rather than providing extended credit. Despite the company receiving advance payment, the collection days were higher at 162 days in FY24 (PY: 182 days) due to larger receivables from the group entities.

#### Hazardous business and associated regulatory risks

Sivakasi is the largest producer of fireworks in India, with ~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 work done by hand in small sheds or at homes. Competition from the unorganised sector due to low entry barriers, environmental issues arising from noise and air pollution, and hazardous industry pose a challenge to the company's operations with instances of ban on cracker sale in the country over the last few years.

#### Liquidity: Strong

Liquidity is marked by strong accruals against nil repayment obligations with free cash and liquid investments worth ₹337.35 crore as on March 31, 2024. Of the above, ₹327 crore are held in fixed deposits of maturity less than 12 months and carried interest rate of ~7.50% per annum, while the rest is held in current accounts and cash-in-hand. The company's inventory is usually high in year-end, as it gradually starts building inventory for the Diwali season and sales in off-season are low compared to the sales in the seasonal period. SFPL utilises overdraft facility sanctioned against fixed deposits and has been sanctioned working capital limits of ₹55 crore (reduced from ₹70 crore) and average utilisation stood low at 14.23% (PY: 27.24%) for 12-month ended December 2024. Its unutilised bank lines are over 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

Macroeconomic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

SFPL was established in 1942 as a partnership firm by Mr. N.R.K. Rajaratnam, Mr. A. Chelladhurai, Mr. K.A.A. Sankaralingam, and Mr. K.A.A. 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)	31-03-2023 (A)	31-03-2024 (A)	9MFY25 (Prov)
Total operating income	206.80	226.11	177.65
PBILDT	56.89	53.96	45.83
PAT	48.17	54.60	NA
Overall gearing (times)	0.05	0.06	NA
Interest coverage (times)	35.92	17.84	11.07

A: Audited; Prov: Provisional; 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:** Annexure-2**Detailed explanation of covenants of rated instrument / facility:** 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (25-Jan-22)
2	Fund-based - LT-Cash Credit	LT	25.00	CARE A; Stable	-	1)CARE A; Stable (05-Mar-24)	1)CARE A; Stable (21-Mar-23)	1)CARE A-; Stable (25-Jan-22)
3	Fund-based - ST-Working Capital Demand loan	ST	30.00	CARE A2+	-	1)CARE A2+ (05-Mar-24)	1)CARE A2+ (21-Mar-23)	1)CARE A2 (25-Jan-22)

\*LT: Long term; ST: 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 lender-wise details of bank facilities please [click here](#)

**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](mailto:care@careedge.in) for clarifications.

## Contact us

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