Somi Conveyor Beltings Limited

March 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	18.00	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Short Term Bank Facilities	20.00	CARE A4+ (A Four Plus)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Total Bank Facilities	**38.00 (Rs. Thirty-Eight Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Somi Conveyor Beltings Limited (SCBL) continue to remain primarily constrained on account of its modest scale of operations with moderate order book position in a competitive and fragmented conveyor belt industry and stretched liquidity position. 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 solvency position.

<u>Rating Sensitivities</u>

Positive Factor- Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations of the company above Rs.80 crore with getting new orders
- Improvement in liquidity position from the current level with operating cycle less than 200 days.

Negative Factor- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations below Rs.38 crore with PBILDT margin less than 10%
- Any debt-funded project undertaken by the company which results in deterioration of capital structure beyond 2.00 times
- Significant deterioration in gross operating cycle.

Detailed description of the key rating drivers

Key Rating Weakness

Modest scale of operations in a highly competitive industry

Total Operating Income (TOI) of the company has witnessed continuous decline in last three financial years ended FY20 owing to slowdown in economy, sectoral liquidity tightening and slowdown in infrastructure segment which led to low orders to the company. During FY20, TOI of the company has declined by 23.29% over FY19 and stood modest at Rs.46.72 crore in FY20. Further, in 9MFY21, it has registered TOI of Rs.26.49 crore as against Rs.39.02 crore in 9MFY20.

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.

Elongated process of production owing to Capital nature of goods

As per the nature of business, normal delivery period is long and needs production planning for specific type of conveyor belts as per the requirement and order received from the customers. Further, most of the delivery orders for finished goods are long term in nature and price is decided at the time of acceptance of purchase order. Thus, all orders are fixed price contract. Further, major raw materials used in the process are rubber, steel, fabric and chemicals. The prices of these materials are highly volatile on account of direct linkage to prices in the international market. Thus, the company purchase part of its raw-material requirement whenever the prices are comfortable and at any given point of time SCBL keeps inventory of around 30-40% of its order amount. Furthermore, due to specific type of Conveyor Belts required by clients usually inspection of the goods is

done by the buyer or outside agency and goods are dispatched after clearance, this process further results in long inventory of stocks. Further, it procures major raw material against LC.
As per the policy matter, all the contracts executed are fixed price contracts with no price escalation clause and the company purchases and keep the inventories for these types of contracts from the date of start of these contracts, which resulted in increased level of inventory continuously. Further, increase of debtors level is also related to long term project contracts wherein the part of payment terms are related to commissioning and installation (10-15 % of total sales value) which generally takes 6-12 months time. Therefore, it resulted in elongated operating cycle which further deteriorated in FY20 and stood at 454 days as against 352 days in FY19. Due to it, the profitability of the exposed to volatile raw material prices.

Experienced management
The overall affairs of the company are looked after by Mr. O. P. Bhansali, Chairman & Managing Director, who have more than 30 years of experience in the conveyor belt industry. He is assisted by his sons, Mr. Vimal Bhansali and Mr Gaurav Bhansali, Whole time Directors, who looks after business development and general administration activities respectively and have vast experience in the industry. 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 since 2000. It has established customer and supplier base in the market. The company mainly gets the orders from Bharat Heavy Electricals Limited (BHEL), Rajasthan Rajya Vidyut Utpadan Nigam Ltd (RRVUNL), Maharashtra State Power Generation Company (MAHAGENCO), Steel Authority of India Limited (SAIL), NTPC, NMDC as well as from cement manufacturer and metal industry.
As on January 20, 2021, it has order book position of Rs.48.23 crore consisting Rs.0.44 crore of exports orders and Rs.45.09 crore of government orders. It majorly executes orders for BHEL, RRVUNL, MAHAGENCO, SAIL and NTPC. The orders will be completed in next 6-8 months reflecting moderate order book position.

Moderate profitability margin
The profitability of the company stood moderate with PBILDT and PAT margin of 16.44% and 5.20% respectively in FY20 as against 14.85% and 2.54% respectively in FY19. During FY20, PBILDT margin of the company has increased by 160 bps over FY19 owing to low raw material cost which offset to an extent with high other expenses as a percentage of TOI. With improvement in PBILDT margin, PAT margin of the company has increased by 266 bps in FY20 over FY19, however, higher in quantum as against increase in PBILDT margin owing to low depreciation expenses. Despite increase in PAT level, GCA of the company has declined by 17.04% over FY19 owing to low depreciation.

Comfortable solvency position
The capital structure of the company stood comfortable with an overall gearing of 0.47 times as on March 31, 2020, marginally improved from 0.64 times as on March 31, 2019 owing to low unsecured loans as well as low LC backed creditors and accretion of profit to reserve. Further, the debt coverage indicators stood comfortable with total debt to GCA of 6.83 times as on March 31, 2020, improved from 7.27 times as on March 31, 2019 owing to high decline in total debt as against decline in GCA level. Further, interest coverage stood comfortable at 2.31 times in FY20.

Stretched – Liquidity
The liquidity position of the company stood stretched marked by elongated operating cycle and high utilization of its working capital bank borrowings. It has utilized more than 90% of its working capital bank borrowing in last twelve months ended February 2021. However, due to high inventory and debtors, the current ratio stood comfortable at 2.13 times as on March 31, 2020, however, quick ratio stood below unity at 0.79 times as on March 31, 2020. It has generated cash flow from operating activities of Rs.5.09 crore in FY20, however, declined from Rs.6.16 core in FY19 on account of account decline in PBILDT level. Further, it has availed moratorium facility from March 2020 to August 2020 and has also availed term loan of Rs.2 crore and Rs.3.67 crore under Covid-19 relied fund.

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
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

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

About the Company

Jodhpur (Rajasthan) based 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 having a total manufacturing capacity of 9,00,000 Meters Per Annum (MPA) and 5000 pieces of rubber sheets per annum. The plants are certified as ISO 9001: 2008 for quality management systems.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	60.91	46.72
PBILDT	9.04	7.68
PAT	1.55	2.43
Overall gearing (times)	0.64	0.47
Interest coverage (times)	2.57	2.31

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

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

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

Complexity level of various instruments rated for this Company: 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	-	-	-	18.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-ILC/FLC	-	-	-	8.00	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	12.00	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/ ST-Cash Credit	LT/ST	18.00	CARE BB+; Stable / CARE A4+	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (29-Apr-20)	1)CARE BB+; Stable / CARE A4+ (24-Jul-19)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE BBB; Negative / CARE A3+ (23-Mar-18)

2.	Non-fund-based - ST-ILC/FLC	ST	8.00	CARE A4+	1)CARE A4+; ISSUER NOT COOPERATING* (29-Apr-20)	1)CARE A4+ (24-Jul-19)	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE A3+ (23-Mar-18)
3.	Non-fund-based - ST-Bank Guarantees	ST	12.00	CARE A4+	1)CARE A4+; ISSUER NOT COOPERATING* (29-Apr-20)	1)CARE A4+ (24-Jul-19)	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE A3+ (23-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-N/A

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.*

Contact us

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

Analyst Contact
Group Head Name - Mr. Abhishek Jain
Group Head Contact no.- 0141-4020213/14
Group Head Email ID- abhishek.jain@careratings.com

Business Development Contact
Name: Mr. Nikhil Soni
Contact no. : +91-141-402 0213 / 14
Email ID : nikhil.soni@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.