

**SML Films Limited**  
**(Previously known as Surat Metallics Limited)**

July 23, 2019

**Ratings**

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities (Term Loans)	-	-	Withdrawn
Long-term/ Short-term Bank Facilities (Non Fund based limits)	-	-	Withdrawn
Long-term Bank Facilities (Fund based limits)	30.00 (reduced from Rs.79.00 crore) @	<b>CARE BBB+; Stable</b> <b>ISSUER NOT COOPERATING*</b> <b>(Triple B Plus; Outlook: Stable;</b> <b>ISSUER NOT COOPERATING*)</b>	Issuer Not Cooperating; Based on best available information
<b>Total Facilities</b>	<b>30.00</b> <b>(Rupees Thirty Crore Only)</b>		

*Details of facilities in Annexure-1*

*@ The reduction in rated exposure is on account of withdrawal of bank facilities extended by one of the lender followed by No Objection letter received from the lender along with the request of the company for withdrawal of rating.*

CARE has withdrawn the ratings of 'CARE BBB+; Stable; ISSUER NOT COOPERATING\*/ CARE A2; ISSUER NOT COOPERATING\* [Triple B Plus; Outlook: Stable; ISSUER NOT COOPERATING\*/ A Two; ISSUER NOT COOPERATING\*]' assigned to the bank facilities of SML Films Limited (SML), with immediate effect. The above action has been taken at the request of SML and 'No Objection letter' received from one of the banker that had extended the facility rated by CARE. Further, CARE has also withdrawn the rating assigned to the proposed bank facilities at the request of the company.

**Detailed description of the key rating drivers**

CARE had, vide its press release dated March 29, 2019, placed the rating(s) of SML under the 'Issuer non-cooperating' category as SML had failed to provide information for monitoring of the ratings as agreed to in its Rating Agreement. SML continues to be non-cooperative. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings assigned to the bank facilities of SML continue to derive strength from the experienced and resourceful promoters of SML, its established manufacturing operations in polyester film/yarn industry supported by diversified revenue stream as well as clientele, its favorable location and steady demand prospects from key end-user flexible packaging industry. The ratings also continue to take into account stabilization of operations of its recently commissioned Biaxially-Oriented Polyethylene Terephthalate (BOPET) films expansion project thereby leading to growth in its scale of operations, profitability and gross cash accruals with improvement in capital structure and debt coverage indicators during FY18 (FY; refers to the period April 01 to March 31).

The ratings, however, continue to be constrained by SML's working capital intensive operation with elongated operating cycle, its presence in a fragmented and competitive polyester film/yarn industry, susceptibility of its profitability margins to foreign exchange fluctuations and volatile raw material prices due to its linkages with crude oil prices and dependence on a few large suppliers with limited bargaining power.

Ability of SML to further grow its scale of operations while sustaining its profitability margins amidst volatile raw material prices and forex rates shall be the key rating sensitivities.

**Detailed description of the key rating drivers**

*At the time of the last rating on March 29, 2019, the following were the rating strengths and weaknesses.*

**Key Rating Strengths**

**Experienced and Resourceful promoters:** Mr. Pragnesh Jariwala, the founder promoter and chairman & managing director of SML, has an experience of around two decades in the polyester firm/yarn industry and looks after the overall operations of the company. He is well assisted in the operations by his father Mr. Ishwarlal Jariwala and Mr. Dharmesh Jariwala who look after the production activities. Both of them are directors in the company and possess rich experience.

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

\*Issuer did not cooperate; based on best available information

**SML's established manufacturing operations in polyester film/yarn industry with its favorable location:** SML has established operations for manufacturing of flexible packaging (both food and non-food items) and textile products. SML manufactures BOPET films and its downstream products with applications in packaging, textile and cosmetic industry. SML markets its products under 'METLON' brand which is an established brand in the Surat region. SML is also the approved vendor for top converters in India for supplying of polyester films. The top 10 customers constituted around 33% and 29% of the total operating income during FY17 and H1FY18 respectively thereby reflecting diversified clientele. SML has location advantage due to its presence in Surat region which is one of the major textile hubs in the country. Thus, the company's presence in Surat region provides competitive advantage in terms of proximity to its customers as well as raw material suppliers leading to timely delivery at lower transportation cost.

**Well integrated operations with backward integration in BOPET manufacturing:** SML integrated backward and started in-house production of its main raw material i.e. polyester films from March 2012. Thereby, it has established six years of successful operations track record for backward integration project. The backward integration project has led to significant increase in the scale of operations, reduced input costs and assured timely delivery of material.

**Growth in scale of operation and cash accruals backed by stabilization of BOPET film capacity expansion albeit moderation in profitability:** During FY17, SML undertook the expansion project to install second BOPET film line with an installed capacity of 36,000 Metric Ton Per Annum (MTPA) thereby expanding the total BOPET Film capacity to 66,000 MTPA. SML has completed two years of operations for expansion project and the capacity utilization stood healthy at 79% during 9MFY18 thereby reflecting stabilization of operations. With quick stabilization of expansion project, SML reported a strong growth of 73% in total operating income with healthy profitability margins to 19.09% during FY18; however, declined from 21.85% in FY17. Further, PAT margin declined by 392 bps during FY18 over FY17 on account of increased depreciation cost followed by commissioning of expansion project. However, cash accruals grew significantly to Rs.88 crore during FY18.

**Improvement in capital structure and debt coverage indicators:** With healthy accretion of profits and repayments of loans, the leverage of the company improved marked by an overall gearing ratio of 1.22 times as on March 31, 2018 as against 1.67 times as on March 31, 2017. Despite relatively high debt level, the debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain comfortable and improved further during FY19.

**Liquidity Analysis:** The liquidity of the company remained comfortable marked by increased and healthy cash accruals, strong current ratio of 1.56 times as on March 31, 2018 and healthy free cash and bank balance and liquid investment of Rs.23 crore as on March 31, 2018. CARE had sought latest updates on liquidity available with SML. However, despite numerous requests, the company has not shared requisite information in this regard. CARE has reviewed the rating on the basis of the best available information.

#### Key Rating Weaknesses

**Susceptibility of profitability margins to fluctuations in prices of raw material and foreign exchange fluctuation:** Basic Raw materials required by SML such as Plastic resins, granules and powder are crude oil derivatives whose prices are subject to volatility in line with those of global crude oil prices. The basic raw materials formed majority of its total cost of raw material consumed. Further, SML's raw material imports part of its raw material requirement. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates. However, SML generally enters into forward covers which partially mitigate the forex risk.

**Presence in a highly competitive and fragmented industry:** The flexible packaging industry is highly fragmented in nature having few large players and several unorganized regional players apart from increasing imports. Moreover, owing to low entry barriers associated with the industry, moderate initial capital investment and ease of access to technology, there is large influx of small players in the industry.

**Working capital intensive operation:** During FY18, gross current assets days (Inventory + debtors) although improved to 76 days as against 91 days during FY17, continued to remain elongated. Further, the reduction in gross current assets days is largely due to reduction in inventory holding period with growth in sales. However, the debtor collection period continued to remain relatively high owing to higher credit extended to the customers to push the demand of its products post capacity expansion apart from growth in export sales where the credit terms are relatively higher compared to domestic sales.

**Analytical Approach:** Standalone

**Applicable Criteria:**

- Policy on Withdrawal of ratings
- Policy in respect of Non-Cooperation by issuer
- Criteria on assigning Outlook to Credit Rating
- CARE's Policy on Default Recognition
- CARE's methodology for manufacturing companies
- Financial ratios – Non-Financial Sector

**About the Company**

Incorporated in July 5, 2002, SML is promoted by Surat-based Mr. Pragnesh Jariwala and family. SML is engaged in the manufacturing of range of products such as polyester film, metallized and lacquered polyester films, metallized yarn, jari kasab and jari powder which find application in packaging (both food and non-food items) as well as textile industry. Further, SML ventured into backward integration and set-up a plant for manufacturing of BOPET films during FY12. Further, it undertook the capacity expansion project for second line of BOPET Films manufacturing with an installed capacity of 36,000 MTPA with total investment outlay of nearly Rs.180 crore, whereby the commercial production started from March 31, 2017. As on December 31, 2017, SML had combined installed capacity of 99,100 metric tonne per annum (MTPA) of all products.

(Rs. Crore)

Brief Financials of SML	FY17 (A)	FY18 (A)
Total Operating Income	353.35	611.15
PBILDT	77.19	116.69
PAT	31.59	30.71
Overall Gearing (times)	1.67	1.22
PBILDT Interest Coverage (times)	6.70	9.31

A: Audited

**Status of non-cooperation with previous CRA:** Brickwork had assigned the ratings to the bank facilities of SML in February 2015 which was due for annual review in February 2016. However, the company has not provided required information for carrying out a review of the ratings, despite close follow up and hence the said rating has not been reviewed as per the Brickwork's press release dated December 30, 2016.

**Any other information:** Not Applicable**Rating History (Last three years):** Please refer Annexure-2**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
Term Loan-Long Term	-	-	-	-	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

**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)	Ratings	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BBB+; Stable; ISSUER NOT COOPERATING* (29-Mar-19)	1)CARE BBB+; Stable (22-Mar-18)	1)CARE BBB; Stable (27-Mar-17) 2)CARE BBB (14-Apr-16)
2.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Stable; ISSUER NOT	1)CARE BBB+; Stable (22-Mar-18)	1)CARE BBB; Stable (27-Mar-17)

						COOPERATING* (29-Mar-19)		2)CARE BBB (14-Apr-16)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE BBB+; Stable / CARE A2; ISSUER NOT COOPERATING* (29-Mar-19)	1)CARE BBB+; Stable / CARE A2 (22-Mar-18)	1)CARE BBB; Stable / CARE A3+ (27-Mar-17) 2)CARE BBB / CARE A3+ (14-Apr-16)
4.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (27-Mar-17) 2)CARE A3+ (14-Apr-16)

\*Issuer did not cooperate; based on best available information

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### 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.

### Disclaimer

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