

## SMVD Poly Pack Limited

August 24, 2018

### Rating

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	31.94	<b>CARE BB+; Stable (Double B Plus; Outlook: Stable)</b>	<b>Assigned</b>
Short-term Bank Facilities	0.37	<b>CARE A4+ (A Four Plus)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>32.31 (Rupees Thirty Two crore and Thirty One lakh only)</b>	-	

Details of facilities in Annexure-1

### Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of SMVD Poly Pack Limited (SMVD) are constrained by its relatively small scale of operations, risk related to expansion project, exposure to volatility in raw material prices, working capital intensive nature of business and its presence in a highly competitive & fragmented nature of the industry. The aforesaid constraints are partially offset by experienced promoters with long track record of operations, satisfactory profit margins, reputed clientele and favorable demand outlook for packaging products and comfortable capital structure with satisfactory debt coverage indicators.

The ability of the company to complete the ongoing expansion project without any cost & time overrun, ability to achieve the projected scale of operations and profitability as envisaged and ability to manage working capital effectively would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Relatively small scale of operations:** The scale of operations of the company remained relatively small marked by total operating income of Rs.47.46 crore with a PAT of Rs.2.11 crore. Moreover, the total operating income witnessed an increasing trend during last three years (FY16-FY18). The total operating income (TOI) has grown at a compounded annual growth rate of 25.46% during last three years (FY16-FY18) on account of increasing demand of its products in the market. Further, the net worth base and total capital employed also remained modest at Rs.18.27 crore and Rs.37.25 crore, respectively, as on March 31, 2018. The company has reported revenue of Rs.12.75 crore in Q1FY19.

**Risk related to expansion project:** Considering the huge demand of its products in the market, the company is currently undertaking an expansion project for increasing the production capacity to 9900 MTPA from existing level of 4500 MTPA. The aggregate cost of the expansion project is estimated at Rs.14.78 crore which is expected to be financed at debt equity of 2.45x. The financial closure for the debt portion of the project has already been achieved. Thus project funding risk is mitigated. The land developments including major civil works have already been completed. Till July 17, 2018, the promoter has already infused capital aggregating to Rs.3.57 crore for the project. The cost incurred till July 17, 2018 is Rs.12.50 crore (i.e.85% of total project cost) funded through promoters contribution of Rs.3.57 crore and term loan of Rs.8.93 crore. Considering the advance stage of the expansion project, the risk of project implementation is almost mitigated but post implementation, operations stabilization will be crucial going forward. Currently trial run is going on and the commercial operation of the expanded capacity is expected to be commencing from August 2018.

**Exposure to volatility in raw material prices:** The primary raw materials required by SMVD are granules, etc., the prices of which are highly volatile. Moreover, the company has MOUS with its suppliers like Reliance Industries Limited and Haldia Petrochemicals Limited for the purchase of raw materials but prices of raw materials are determined at spot prices depending on the movement of crude prices. Hence, the profitability margins of the company could get adversely affected with any sudden spurt in the raw material prices.

**Working capital intensive nature of business:** The operations of the company remained working capital intensive as the company maintains adequate inventory of raw materials for smooth running of its production process and to mitigate price fluctuation risk. Accordingly the average utilization of fund based limits was around 80% during last twelve months ended in June 30, 2018.

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

**Highly competitive and fragmented nature of the industry:** The plastic bags and packaging is highly fragmented with a large number of small to medium scale organized and unorganized players owing to low entry barriers with no visible differentiators in product profile. High competition in the operating spectrum and small size of the company limits the scope for margin expansion.

#### Key Rating Strengths

**Experienced promoters and long track record of operations:** SMVD is into manufacturing of plastic bags & fabrics since 2010 and thus has eight years of track record of operations. Moreover, the key promoter Mr. Pramod Kumar Agarwal (MD & Chairman) has more than two decades of experience in the same line of business, looks after the day to day operations of the company. He is supported by other director Mrs. Sangita Agarwal and Mr. Pawan Kumar Agarwal along with a team of experienced professionals.

**Satisfactory profit margins:** The profitability margins remained satisfactory marked by PBILDT margin of 11.06% (FY17:13.13%) and PAT margin of 4.45% (FY17: 3.31%) in FY18. However, the PBILDT margin deteriorated in FY18 on account of higher increase in cost of operations. Moreover, the PAT margin improved during FY18 and the same stood at 4.45% in FY18 as against 3.31% in FY17 due to low capital charges.

**Reputed clientele and favorable demand outlook for packaging products:** India's packaging industry has witnessed a growth over the last 3 years driven by favourable demographic profile, rising income levels, changing spending patterns, increased retail penetration to Tier II & Tier III cities and increasing consumerism. The long term fundamental drivers for growth in demand for packaging products remain favourable even as near term uncertainties prevail due to slowdown in economic growth and its dampening impact on consumer sentiment. SMVD has been associated with a number of reputed customers since its inception and has marked a remarkable presence as a supplier of packaging materials. The company is a vendor of TATA Chemicals Limited, Shalimar Pellets Feeds Ltd, The Supreme Industries Ltd, etc.

**Comfortable capital structure with satisfactory debt coverage indicators:** The capital structure of the company remained comfortable marked by debt equity ratio of 0.55x and overall gearing ratio at 0.96x as on March 31, 2018. The debt coverage indicators of the company also remained satisfactory marked by interest coverage of 2.70x and total debt to GCA of 5.67x in FY18.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

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

[Criteria for Short Term Instruments](#)

#### About the Company

SMVD was initially set up as a private limited company 'SMVD Poly Pack Private Limited' in the year 2010 by Mr. Pramod Kumar Agarwal, Mrs. Sangita Agarwal and Mr. Pawan Kumar Agarwal. Subsequently, it was converted into limited company and the name of the company changed to its present name. The company has been engaged in manufacturing of plastic bags & fabrics like PP/HDPE Bag/Sacks, Leno bags, PP/HDPE Fabric, Bopp Bags, etc. The manufacturing facility of the company is located at Srirampur, West Bengal. The company procures its entire raw materials from domestic market and sells its products in Odisha, West Bengal, Rajasthan, etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	36.13	47.46
PBILDT	4.74	5.25
PAT	1.20	2.11
Overall gearing (times)	2.25	0.96
Interest coverage (times)	2.15	2.70

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating History (Last three years):** Please refer Annexure-2

**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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**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-Term Loan	-	-	June 2025	15.94	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	16.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.37	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	15.94	CARE BB+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	16.00	CARE BB+; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.37	CARE A4+	-	-	-	-

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