

SNJ Synthetics Limited

March 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	35.74 (reduced from Rs.37.27 crore)	CARE BB; Positive (Double B; Outlook: Positive)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short-term Bank Facilities	12.55	CARE A4 (A Four)	Reaffirmed
Total Facilities	48.29 (Rs. Forty Eight Crore and Twenty Nine Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNJ Synthetics Limited (SSL) continue to remain constrained by moderate capital structure, volatility of raw material prices, working capital intensive nature of operations leading to elongated operating cycle; albeit improvement. The ratings are underpinned by the experience of the promoters, strong and reputed clientele base, ease in raw material availability on account of established relationship with suppliers, and the favorable demand prospects for the poly ethylene terephthalate (PET) preforms. The ratings also take into account increase in revenues and profits during FY18 (FY refers to the period from April 01 to March 31) and 9MFY19 backed by improved capacity utilization (CU) levels albeit decline in PBILDT margins. Going forward, the ability of the company to improve its PBILDT margins, capital structure and managing its working capital efficiently are the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook reflects CARE's expectation of improvement in the operational and financial performance of the company which is expected to improve the liquidity position of the company.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of business resulting in moderate liquidity: The Company's operations are highly capital-intensive on account of seasonality nature of their business, as the business peaks during the period of March-June. This has led to elongated operating cycle and high reliance on bank borrowings. However, during FY18, the operating cycle of the company improved to 103 days, from 116 days during FY17, on account of improvement in collection period.

The liquidity position of the company was moderate. The current ratio of the company was 1.29x as on March 31, 2018. Further, the average working capital utilization was around 95-98% for the 12 months ended November 2018. The company is supported by its promoters who infuse funds depending on the requirement. The cash & bank balances for SSL was Rs.0.55 crore as on March 31, 2018.

Exposed to volatility in raw material prices: SSL is exposed to volatility in oil prices as petroleum products are primarily used as raw material & any increase or decrease has a direct effect on the cost of the raw material. The profitability margins of the company are impacted on account of the same.

Decline in PBILDT margins: Although, the company's revenues witnessed increase during FY18 and 9MFY19, the PBILDT margin of SSL declined. In order to increase its customer base, the company has offered discounts, despite increase in raw material costs, which has led to moderation in the PBILDT margin during FY18 and 9MFY19.

Moderate capital structure: There is sub-ordination of unsecured loans, hence, the same is being considered as quasi-equity. The capital structure of the company is moderate with overall gearing at 1.12x as on March 31, 2018. The same improved to 1.01x as on December 31, 2018.

Key Rating Strengths

Experienced promoter and management team: Mr. Sanjay Jalan, Managing Director and promoter of the company has more than 25 years of experience in the manufacture of Thermoplastics. The promoters look after day to day operations of the company supported by a team of professionals.

Strong & reputed clientele: SSL has strong and reputed clientele which includes Bisleri International Private Limited, Indian Railway Catering and Tourism Corporation (IRCTC) and PepsiCo India Holdings among others. During FY18 top 10

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

customers contributed 82.62% of the net sales. Bisleri International was the largest contributor with contribution of 24.31% to the net sales.

Ease in raw material availability on account of established relationship with suppliers: Over the years, the company has established good relationships with its suppliers which ensures availability of raw material, bulk orders and also helps in price negotiation.

Increase in revenue and profits coupled with improved CU levels: The capacity utilization level of the company improved during FY18 & 9MFY19 to 58.51% & 63.70% respectively as against 57.46% during FY17. The company has penetrated the market further and has been able to add new clients. This has led to increase in revenues for SSL. During FY18, the total operating income (TOI) has increased by 17.60%, from Rs.106.89 crore to Rs.125.70 crore. Income further increased to Rs.142.39 crore during 9MFY19. Increase in revenues has resulted in increased profits and accruals for the company.

Industry Outlook: The Indian packaging industry, which constitutes about 4 per cent of the global packaging industry, has been growing at an annual rate of 13 per cent and is expected to touch \$32 billion by 2020. Global packaging market is estimated at \$771 billion expected to go up to \$925 billion by 2020. The per capita packaging consumption in India is quite low at 8.7 kg, compared to countries such as Germany and Taiwan where it is 42 kg and 19 kg.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial Ratios - Non-Financial Sector](#)

About the Company

Incorporated as public limited company in April 1998, SNJ Synthetics Limited (SSL) is engaged in manufacturing of Poly Ethylene Terephthalate (PET) preforms, Poly Propylene (PP). SSL has an ISO: 9001 certified PET perform plant located at Bolaram Industrial Estate in Hyderabad with an installed capacity of 21,600 MTPA and built up area of 125000 sq. feet.

Mr Sanjay Jalan, chief promoter of the company, has also promoted SNS Starch Ltd incorporated in December 2008 engaged in manufacturing of grain based starch.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	106.89	125.70
PBILDT	15.71	17.09
PAT	2.05	3.31
Overall gearing (times)	1.35	1.12
Interest coverage (times)	1.62	1.95

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	May 2022	7.74	CARE BB; Positive
Fund-based - LT-Cash Credit	-	-	-	26.00	CARE BB; Positive
Non-fund-based - ST-Letter of credit	-	-	-	12.00	CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	0.30	CARE A4
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	2.00	CARE BB; Positive
Non-fund-based - ST-Forward Contract	-	-	-	0.25	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	7.74	CARE BB; Positive	-	1)CARE BB; Stable (26-Mar-18) 2)CARE BB; Stable (03-May-17) 3)CARE BB; Stable (10-Apr-17)	1)CARE BB; ISSUER NOT COOPERATING* (06-Mar-17)	1)CARE BB (28-Mar-16)
2.	Fund-based - LT-Cash Credit	LT	26.00	CARE BB; Positive	-	1)CARE BB; Stable	1)CARE BB; ISSUER NOT	1)CARE BB (28-Mar-

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						(26-Mar-18) 2)CARE BB; Stable (03-May-17) 3)CARE BB; Stable (10-Apr-17)	COOPERATING* (06-Mar-17)	16)
3.	Non-fund-based - ST-Letter of credit	ST	12.00	CARE A4	-	1)CARE A4 (26-Mar-18) 2)CARE A4 (03-May-17) 3)CARE A4 (10-Apr-17)	1)CARE A4; ISSUER NOT COOPERATING* (06-Mar-17)	1)CARE A4 (28-Mar-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	0.30	CARE A4	-	1)CARE A4 (26-Mar-18) 2)CARE A4 (03-May-17) 3)CARE A4 (10-Apr-17)	1)CARE A4; ISSUER NOT COOPERATING* (06-Mar-17)	1)CARE A4 (28-Mar-16)
5.	Fund-based - LT-Packing Credit in Foregin Currency	LT	2.00	CARE BB; Positive	-	1)CARE BB; Stable (26-Mar-18) 2)CARE BB; Stable (03-May-17) 3)CARE BB; Stable (10-Apr-17)	-	-
6.	Non-fund-based - ST-Forward Contract	ST	0.25	CARE A4	-	1)CARE A4 (26-Mar-18)	-	-

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