

SNJ Synthetics Limited
October 22, 2019

Ratings

Facilities	Amount (Rs.crore)	Rating ¹	Rating Action
Long Term Bank Facilities	34.01	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Positive (Double B; Outlook: Positive)
Short Term Bank Facilities	12.55	CARE A4 (A Four)	Reaffirmed
Total facilities	46.56 (Rs. Forty-Six crore and Fifty-Six lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of SNJ Synthetics Limited (SSL) is on account of significant improvement in the scale of operations during FY19 (refers to period April 01 to March 31), improvement in overall gearing, debt coverage indicators and operating cycle. The ratings, however, are tempered by decline in the profitability margins due to increase in the raw material prices, working capital intensive nature of business and volatile nature of raw material prices. The ratings, further are underpinned by experienced and resourceful promoters, strong and reputed clientele base with diversified product solution in PET preforms and established relationship with suppliers.

Rating sensitivities:**Positive factors:**

- Improvement in the PBILDT margins on a sustained basis over 12%.
- Utilization of working capital limits at moderate levels of about 80% thus providing sufficient liquidity cushion.
- Maintaining average debtor days consistently below 40 days.

Negative sensitivities:

- Delay in tie up of the additional working capital limits of Rs. 10.00 crore to improve the liquidity profile.
- To undertake the capex by utilizing the internal accruals or any further investment in subsidiaries or associate companies from the cash flows generated from the company causing strain on liquidity.
- Overall gearing going beyond 1.10x on sustained basis.
- Significant increase in the price of crude oil prices.

Detailed description of the key rating drivers**Key Rating Weaknesses****Decline in the profitability margins**

The PBILDT margin of the company declined by 359 bps from 13.59% during FY18 to 10.00% during FY19 due to increase in the raw material cost. The raw material cost/MT increased by 21% from Rs 84,051 crore in FY18 to Rs. 1,01,716 crore in FY19 affecting the profitability margins. In line with decline in PBILDT%, the PAT margin of the company also declined by 103 bps from 2.64% during FY18 to 1.61% during FY19.

Working capital intensive nature of business

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. However, during FY19, the operating cycle of the company improved to 71 days during FY19 from 103 days during FY18 on account of improvement in collection period and inventory days. The average collection period and inventory period improved from 56 days and 95 days during FY18 to 41 days and 59 days during FY19 respectively.

Exposed to volatility in raw material prices

Raw materials used in manufacturing are primarily petroleum products which in turn are dependent on international crude oil prices; hence SSL is exposed to volatility in oil prices as any increase/decrease directly affects the cost of the raw materials.

Key Rating Strengths**Significant improvement in the total operating income during FY19**

The total operating income of the company increased significantly by 61.93% from Rs. 125.70 crore to Rs. 203.55 crore during FY19 backed by increase in the quantum of sales along with increase in sales realisation. The sales realization improved by 33.50% from Rs. 92,239/MT during FY18 to Rs. 1,23,140/MT during FY19 along with increase in the sales quantity from

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

16,154 MT during FY18 to 16,490 MT resulting in improvement in the total operating income. The company registered PAT of Rs. 3.28 crore during FY19 as against Rs. 3.31 crore during FY18.

Strong and reputed clientele

The company's clientele consists of reputed brands such as Varun Beverages Ltd, Pepsico India Holdings Pvt Ltd, Bisleri International Pvt Ltd, Allied Blenders and Distilleries Pvt Ltd, IRCTC Ltd etc. The top 10 clients of the company contribute about 76.36% of the total operating income during FY19 (82.62% during FY18) reducing the client concentration risk Y-o-Y basis

Diversified product solutions in PET preforms

The company is into manufacturing of pre-forms for water, hot-filled beverages and carbonated soft drinks with varying neck dimensions and blown bottles with wide neck. The company also manufactures packing solutions to pharmaceuticals and FMCG segments.

Moderate capital structure

The overall gearing of the company improved to 0.96x as on March 31, 2019 from 1.12x as on March 31, 2018 due to scheduled repayment of term loan along with accretion of the profit to the networth of the company. Further, during FY19, the promoters and directors have infused Rs. 5.28 as unsecured loans. Till March 31, 2019 the promoters and directors have infused Rs.35.88 crore which are subordinated to the bank facilities and the same being considered as quasi equity thus resulting in improving the capital structure of the company.

Moderate debt coverage indicators

The PBILDT interest coverage ratio of the company remained moderate at 2.08x during FY19 as against 1.94x during FY18 due to high interest expense. The debt coverage indicators such as total debt/GCA and total debt/PBILDT also remained moderate at 5.65x and 2.96x during FY19 as against 6.92x and 3.58x during FY18 respectively due to reduction in total debt level.

Experienced promoters 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.

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 ensure availability of raw material. Major suppliers for SSL are Reliance Industries Limited and Dhunsari Petrochem and Tea Limited where the company procures 70% of its raw material requirements. Generally SSL enters into annual contracts with its suppliers for sourcing of raw materials in bulk orders which also helps the company to negotiate for better pricing.

Liquidity: Moderate - The current ratio of the company is moderate at 1.39x as on March 2019(1.29x as on March 2018). Further the liquidity is marked by tightly matched accruals to debt obligations, highly utilized bank limits and modest cash balance.

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 and bottles. SSL has an ISO: 9001 certified PET perform plant located at Bollaram Industrial Estate in Hyderabad with an installed capacity of 25,000 MTPA and built up area of 125000 sq. feet. Mr. Sanjay Jalan, chief promoter of the company, has more than 25 years of experience in the manufacturing of thermoplastics. The company's clientele consists of reputed brands such as Pepsico India Holdings Pvt Ltd, Varun Beverages Ltd, Bisleri International Pvt Ltd, Allied Blenders and Distilleries Pvt Ltd, IRTC Ltd etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	125.70	203.55
PBILDT	17.09	20.35
PAT	3.31	3.28
Overall gearing (times)	1.12	0.96
Interest coverage (times)	1.95	2.08

*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

Annexure-1: Details of 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	-	-	April, 2022	6.01	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	26.00	CARE BB+; Stable
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+; Stable
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 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-Term Loan	LT	6.01	CARE BB+; Stable	-	1)CARE BB; Positive (28-Mar-19)	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)
2.	Fund-based - LT-Cash Credit	LT	26.00	CARE BB+; Stable	-	1)CARE BB; Positive (28-Mar-19)	1)CARE BB; Stable (26-Mar-18) 2)CARE BB; Stable (03-May-17) 3)CARE BB; Stable	1)CARE BB; ISSUER NOT COOPERATING* (06-Mar-17)

							(10-Apr-17)	
3.	Non-fund-based - ST- Letter of credit	ST	12.00	CARE A4	-	1)CARE A4 (28-Mar-19)	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)
4.	Non-fund-based - ST- Bank Guarantees	ST	0.30	CARE A4	-	1)CARE A4 (28-Mar-19)	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)
5.	Fund-based - LT-Packing Credit in Foreign Currency	LT	2.00	CARE BB+; Stable	-	1)CARE BB; Positive (28-Mar-19)	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 (28-Mar-19)	1)CARE A4 (26-Mar-18)	-

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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