Shri Jagdamba Polymers Limited

February 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	5.75 (reduced from Rs.24.46 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Short Term Bank Facilities	22.82 (enhanced from Rs.20.00 crore)	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Long term/ Short term Bank Facilities	22.00	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Revised from CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**
Total	**50.57 (Rupees Fifty Crore and Fifty Seven Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in ratings assigned to the bank facilities of Shri Jagdamba Polymers Limited (SJPL) takes into account continuous growth in total operating income with improving profitability margins leading to strong growth in cash accruals and improvement in debt coverage indicators during past two years ended FY18 (A) and 9MFY19 (UA). The ratings also take into account improvement in leverage backed by reduced debt level, and improvement in return indicators which remained strong marked by ROCE of around 40% during FY18.

The ratings continue to derive strength from its experienced promoters, SJPL's long standing track record of operation in woven fabric manufacturing and established relationship with its overseas customers.

The ratings, however, continue to be constrained by its modest scale of operations, susceptibility of its profitability to volatile raw material prices and foreign exchange rates, customer concentration risk and presence in the fragmented and competitive woven fabric industry which restricts its profitability margin.

The ability of SJPL to further grow its scale of operation while maintaining its profitability in the light of volatile raw material prices and forex rates and effective management of its working capital would be the key rating sensitivities. Further, company taking up any large size debt funded capex shall also remain key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Continuous growth in total operating income and improving profitability: The total operating income of SJPL grew at a Compounded Annual Growth rate of around 17% over past three years ended FY18 and grew by 22% during FY18 over FY17. The growth in total operating income of the company was largely driven by improving capacity utilisation and increasing average sales realization of its products. The capacity utilisation of SJPL's products improved to 88% during FY18 from 59% during FY16. PBILDT margin improved significantly during FY18 by 373 bps over FY17 on the back of favourable sales mix apart from improvement in average sales realization and improved operational efficiency. PAT margin also improved in line with PBIDLT margin along with lower interest and depreciation cost. Growth in total operating income along with improvement in profitability margins led to significant growth in gross cash accruals to Rs.19.51 crore during FY18 compared to Rs.12.36 crore during FY17.

Further, during 9MFY19, the total operating income and PBILDT grew by 13% and 27% respectively over 9MFY18. Furthermore, the PBILDT margin continued to remain strong and improved further to 17.87% during 9MFY19.

Improvement in leverage and debt coverage indicators: The capital structure marked by an overall gearing ratio improved significantly from 1.05 times as on March 31, 2017 to 0.33 times as on March 31, 2018 due to reduced debt level backed by scheduled repayment of term debt apart from low working capital limit utilization backed by strong operating cash flow and controlled working capital cycle. The interest coverage and total debt to GCA ratio also improved during FY18 due to lower interest cost and higher profitability and strong cash accruals. Moreover, the return indicators of the company also improved and remained strong marked by ROCE and RONW of around 40% and 46% respectively during FY18.

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

Experienced promoter: SJPL is promoted by Mr. Ramakant Bhojnagarwala, a first generation entrepreneur and has nearly five decades of experience in the textile and polymer industry. He monitors the overall operations of SJPL and plays an active role in growth of the company. He is assisted by his son Mr. Hanskumar R. Agarwal, who is a graduate and has nearly two decades of experience in the woven fabrics, bags and geo-textile business. The promoters have also promoted the other company; Shakti Polyweave Private Limited (SPPL; rated CARE BBB+; Positive/ CARE A2) which is also engaged in similar line of operations. Both these companies operate under the common management and have business linkages.

Established track record of operations with diverse industry application: SJPL started its operation in May 1985, with manufacturing of plastic woven fabrics and bags and has more than 3 decades of operational track record in the woven fabrics and bags industry. SJPL's product portfolio includes polypropylene (PP)/ Polyethylene (PE) woven bags, fabric, Siltfence, Flexible Intermediate Bulk Containers (FIBC) and geo-textile products. "Siltfence" is a woven fabric used in construction industry in US and Europe. Geo-textile products find its applications in soil, rock, earth, ground covers etc. to strengthen the soil.

Established relationship with customers: SJPL's majority of the production is exported to countries such as United Kingdom (UK), United States of America (USA), China and other European countries. SJPL has been successful in establishing a stable customer base in these countries. Although, it does not have any long-term agreements in place with its customers, SJPL has been able to secure repeat orders from its customers due to conformity to quality standards and specifications which mitigate the risk to a certain extent.

Liquidity Analysis: The liquidity profile of the company is comfortable with current ratio of 1.86 times as on March 31, 2018 and average fund based working capital utilizations at 38% for past trailing 12 months ended October 2018. Moreover, liquidity is supported by healthy cash accruals and need based support from promoters. SJPL had unencumbered cash and bank balance of Rs.1.57 crore as on March 31, 2018. Further, in absence of major term debt repayment obligation and steady cash accruals, the liquidity of the company is expected to remain strong.

Key Rating Weaknesses

Modest scale of operation and customer concentration risk: Despite consistent increase in total operating income, the scale of operation of the company remained modest marked by total operating income of Rs.179 crore during FY18 and networth base of Rs.44 crore as on March 31, 2018. Moreover, revenue concentration from top 5 customers continues to remain high at 76% of total operating income during FY18. Therefore, continuous relationship with existing customers remains crucial for credit perspective.

Susceptibility of profits to volatility associated with raw material prices and forex rates: SJPL's main raw material comprises plastic granules, which are crude derivatives. Hence, any change in international crude oil prices and exchange rate impacts raw material pricing for the company. The company normally follows order backed purchases of raw materials thereby insulating profitability from raw materials price fluctuations risk to an extent. Further, SJPL generates substantial part of its total income from export (82% of total operating income during FY18) which exposes it to the risk associated with forex rates. However, the risk is mitigated partially on account of the natural hedge available in the form of imports of raw material (~ 39% of the total cost of raw material in FY18) and utilization of foreign currency denominated working capital facilities against its export orders.

Competitive woven sacks industry and limited bargaining power with large supplier restricts the profitability: The industry is fragmented in nature due to the low entry barrier on account of low initial capital investment and ease of accessibility to technology. This results in increase in the competition especially in the domestic market. Moreover, there are limited suppliers of its key raw material (plastic granules) in the domestic market due to the oligopolistic nature of the supply market, which results in a limited bargaining power of SJPL. However, in order to partially mitigate the concentration risk, the company also sources the raw material from international suppliers.

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: Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]

About the Company

Incorporated in May 1985, SJPL is promoted by Mr. Ramakant Bhojnagarwala and his family members. SJPL is engaged in manufacturing of PP/ PE woven sacks & fabric, geo-textile products and various technical textile products which find its application in agriculture, infrastructure and packing industry. SJPL has its plant situated at Dholka, Ahmedabad having an installed capacity for woven fabrics and bags of 12,000 Metric Tons per annum (MTPA) as on March 31, 2018. Moreover, As on March 31, 2018, SJPL has windmill capacity of 3.6 Mega Watt (MW).

Brief Financials (Rs. crore)	FY17 (Aud.)	FY18 (Aud.)
Total operating income	147.35	179.46
PBILDT	18.40	29.12
PAT	5.71	16.47
Overall gearing (times)	1.05	0.37
Interest coverage (times)	5.89	15.42

During 9MFY19, as per un-audited results, SJPL reported a net profit of Rs.16.88 crore on total operating income of Rs.150.00 crore as against Rs.12.27 crore and Rs.133.19 crore during 9MFY18 respectively.

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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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	-	-	March 2021	3.75	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	2.00	CARE BBB+; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	2.82	CARE A2
Fund-based - ST-EPC/PSC	-	-	-	20.00	CARE A2
Fund-based/Non-fund-based-LT/ST	-	-	-	22.00	CARE BBB+; Stable / CARE A2

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	3.75	CARE BBB+; Stable	-	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB; Stable (15-Dec-16)	1)CARE BBB- (11-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB; Stable (15-Dec-16)	1)CARE BBB- (11-Sep-15)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	2.82	CARE A2	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (15-Dec-16)	1)CARE A3 (11-Sep-15)
4.	Fund-based - ST-EPC/PSC	ST	20.00	CARE A2	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (15-Dec-16)	1)CARE A3 (11-Sep-15)
5.	Fund-based/Non-fund-based-LT/ST	LT/ ST	22.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (28-Dec-17)	1)CARE BBB; Stable / CARE A3+ (15-Dec-16)	-

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