Shri Jagdamba Polymers Limited
March 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	34.90 (enhanced from Rs.5.75 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short term Bank Facilities	43.00 (enhanced from Rs.22.00 crore)	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Reaffirmed**
Short-term Bank Facilities	17.62 (reduced from Rs.22.82 crore)	**CARE A2 (A Two)**	**Reaffirmed**
Total	**95.52 (Rupees Ninety Five Crore and Fifty Two Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The ratings assigned to the bank facilities of Shri Jagdamba Polymers Limited (SJPL) continue to derive strength from its experienced promoters, SJPL's long track record of operations in woven fabric manufacturing and established relationship with its overseas customers. The ratings also factor its healthy profitability margins, comfortable capital structure, healthy debt coverage indicators and adequate liquidity.
The ratings, however, continue to remain constrained by its modest scale of operations, susceptibility of its profitability to volatile raw material prices and foreign exchange rates, high customer concentration risk and its presence in a fragmented and competitive woven fabric industry which restricts its profitability margin. The ratings also take cognizance of stabilization and salability risk associated with its on-going large size capacity expansion project.

Rating Sensitivities
Positive Factors:
- Increase in scale of operations with Total Operating Income (TOI) beyond Rs.450 crore through geographical and customer diversification while maintaining PBILDT margin in the range of 16-18% on sustained basis
- Maintaining its overall gearing below 0.50 times and its operating cycle at around 50 days on a sustained basis

Negative Factors:
- Decline in PBILDT margin below 12% on sustained basis
- Deterioration in debt coverage indicators with interest coverage falling below 4 times and total debt/gross cash accruals of more than 4 times on sustained basis.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoter: SJPL was promoted by Mr. Ramakant Bhojnagarwala, a first generation entrepreneur who 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 managing its day-to-day operations. He is assisted by his son Mr. Hanskumar R. Agarwal, who is a graduate and has nearly two decades of experience in technical textile industry. The promoters are well supported by an experienced and qualified team of professionals. Moreover, promoters have also set-up another 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. While SJPL is publicly listed on the stock exchange, SPPL is an unlisted closely-held company.

Established and long track record of operations with diverse industry application of its products: SJPL started its operation in May 1985, with manufacturing of plastic woven fabrics and bags and has track record of more than three decades in technical textile industry. SJPL's product portfolio includes polypropylene (PP)/ Polyethylene (PE) woven bags, fabric, Siltfence, Flexible Intermediate Bulk Containers (FIBC), geo-textile, ground cover, etc. which find application in packaging (storage and transportation of powdered, granulated, or bulk products), infrastructure (to control soil erosion, earth stabilization and act against biological degradation) and agriculture industry (unwanted weed suppression, soil moisture preservation, erosion control, resistance against attack by bacteria and ground insect).

Established relationship with customers: Majority of SJPL's production is exported to countries such as United Kingdom (UK), United States of America (USA), China and some other European and Asian countries. SJPL has been successful in

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

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 client concentration risk to a certain extent.

Stable total operating income (TOI) during FY19 (A) and 9MFY20 (UA); albeit improvement in profitability margins: SJPL's TOI which grew at a Compounded Annual Growth Rate (CAGR) of 19% during FY14-FY18, grew by 6% during FY19 over FY18 due to increase in average sales realization by 8% which was partially offset by decline in sales volume by 3%. Moreover, capacity utilisation continued to remain stable at 87% during FY19. PBILDT margin which improved from 10.02% in FY15 to 16.23% in FY18, improved further by 194 bps to 18.17% during FY19 on the back of higher average sales realization due to increase in sales of higher value added products. PAT margin also improved significantly in line with PBIDLT margin along with lower interest cost and largely stable depreciation charge. Furthermore, the return indicators of the company continue to remain strong marked by ROCE and RONW of around 45% and 40% respectively during FY19.
During 9MFY20, TOI of the company grew by 3% over 9MFY19. Moreover, PBILDT margin improved by 115 bps on Y-o-Y and continued to remain strong at 19.01% during 9MFY20.

Comfortable capital structure with healthy debt coverage indicators: The capital structure of SJPL marked by overall gearing ratio improved significantly from 0.36 times as on March 31, 2018 to 0.15 times as on March 31, 2019 on the back of repayment of term debt, lower working capital borrowings and accretion of profit to its reserves. Moreover, debt coverage indicators marked by interest coverage ratio and total debt to GCA improved further during FY19 and remained comfortable at 34 times (FY18: 15 times) and 0.38 years (FY18: 0.82 years) respectively on the back of lower debt level and higher cash accruals.

Key Rating Weaknesses

Modest scale of operations and high customer concentration risk: The scale of operations of SJPL continued to remain modest marked by TOI of Rs.190 crore during FY19 and net-worth base of Rs.66 crore as on March 31, 2019. Moreover, revenue concentration from top 5 customers continued to remain high at 63% of TOI during FY19. Therefore, continuous relationship with existing customers remains crucial for credit perspective.

Ongoing large size debt funded capex: Considering the already optimum utilization of existing manufacturing capacities and growing demand for its products, SJPL is implementing a large size expansion project at a total cost of Rs.45.59 crore (approximately 0.70 times of its tangible net-worth as on March 31, 2019) which is being funded through term loan of Rs.32.90 crore and balance through internal accruals. As on January 31, 2020, SJPL had incurred cost of Rs.29.93 crore which was funded through term loan of Rs.20.81 crore and balance through internal accruals. SJPL has started commercial production from phase-I in December 2019 and it expects to commence commercial operation from full capacity in Q4FY21. SJPL's products have high export potential considering growing demand from agriculture sector. SJPL has already established customers in overseas market which limits saleability risk to certain extent. However, early ramp up in production and sales volumes and generation of envisaged returns from the project remains to be seen.

Profitability susceptible to raw material price volatility and foreign exchange rate fluctuation: SJPL's main raw material comprises plastic granules, which are crude derivatives. Hence, any sharp change in international crude oil prices and foreign exchange rate impacts raw material pricing for the company. The company normally follows order backed purchases of raw materials thereby insulating profitability from raw material price fluctuation risk to an extent. Further, SJPL generates substantial part of its total income from export (80% of TOI during FY19) 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 import of raw material (~ 42% of the total cost of raw material in FY19). Moreover, company avails foreign currency borrowings against its exports which also provides natural hedge. Company also covers forex exposure through forward contracts depending upon the market scenario.

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 limited bargaining power for SJPL. However, in order to partially mitigate the concentration risk, the company also sources the raw material from international suppliers.

Liquidity: Adequate

SJPL's liquidity remains adequate marked by strong current ratio of 2.87 times as on March 31, 2019, largely stable operating cycle of 50 days during FY19 and low working capital limit utilization of 25% during past 12 months ended November 2019. Moreover, cash flow from operation stood healthy at Rs.25.28 crore during FY19. Further, SJPL has relatively low term debt repayment obligation of Rs.6 crore to Rs.7 crore per annum during next two years as against growing cash accruals which remained at Rs.25 crore during FY19 indicating adequate cushion in its debt servicing. Furthermore, SJPL had unencumbered cash and bank balance of Rs.7.10 crore as on March 31, 2019. SJPL's unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical Approach: Standalone
Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in May 1985, SJPL was promoted by Mr. Ramakant Bhojnagarwala and his family members. SJPL is engaged in manufacturing of PP/ PE woven fabric, bag and various technical textile products which find its application in packaging, agriculture and infrastructure industry. As on March 31, 2019, SJPL had installed capacity of 12,000 Metric Tons per annum (MTPA) of woven fabrics and bags from its two units situated at Dholka, Dist: Ahmedabad. Moreover, as on March 31, 2019, SJPL had windmill capacity of 3.6 MW.

(Rs. Crore)

Brief Financials of SJPL	FY18 (A)	FY19 (A)
Total operating income	179.46	190.47
PBILDT	29.12	34.59
PAT	16.47	21.87
Overall gearing (times)	0.37	0.15
PBILDT Interest coverage (times)	15.42	33.66

A: Audited

- During 9MFY20, as per un-audited results, SJPL reported a PAT of Rs.19.95 crore on total operating income of Rs.155.25 crore as against PAT of Rs.16.88 crore on total operating income of Rs.150.00 crore during 9MFY19.

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 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	-	-	July 2025	32.90	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	2.00	CARE BBB+; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	2.62	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A2
Fund-based/Non-fund-based-LT/ST	-	-	-	43.00	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 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	32.90	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Feb-19)	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB; Stable (15-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Feb-19)	1)CARE BBB; Stable (28-Dec-17)	1)CARE BBB; Stable (15-Dec-16)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	43.00	CARE BBB+; Stable/ CARE A2	-	1)CARE BBB+; Stable/ CARE A2	1)CARE BBB; Stable/ CARE A3+ (28-Dec-17)	1) CARE BBB; Stable/ CARE A3+ (15-Dec-16)

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
						(25-Feb-19)		
4.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2	-	1)CARE A2 (25-Feb-19)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (15-Dec-16)
5.	Non-fund-based - ST-Credit Exposure Limit	ST	2.62	CARE A2	-	1)CARE A2 (25-Feb-19)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (15-Dec-16)
6.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	-	-	1)Withdrawn (15-Dec-16)
7.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	-	1)Withdrawn (15-Dec-16)

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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