Somi Conveyor Beltings Limited

March 03, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities	18	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook:Stable/ A Three Plus)**	**Reaffirmed**
Short-term Bank Facilities	20	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Facilities	**38 (Rupees Thirty-Eight crore only)**		

Details of instruments/facilities in Annexure-I

Detailed Rationale

The ratings assigned to the bank facilities of Somi Conveyor Beltings Limited (SCBL) continue to derive strength from wide experience of the promoters in the conveyor belt industry with established track record of operations, diversified and reputed customers base with strong order book and its financial risk profile marked by healthy profitability and comfortable capital structure.

The ratings, however, continue to remain constrained on account of volatility associated with raw material prices and its operations in a competitive and fragmented industry. The ratings, further, continue to remain constrained owing to its elongated operating cycle marked by higher inventory holding and collection period.

Increase in the scale of operations while sustaining its profitability and efficient working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of promoters with established track record of operations

SCBL was incorporated in 2002 and hence, it has track record of more than a decade in the conveyor belting industry. Furthermore, it has a team of experienced and qualified management having more than three decades of experience in the industry.

Strong order book position

As on November 22, 2016, the company has strong order book position which will be completed in the next 6-12 months reflecting strong order book position. It mainly receives orders from reputed client base like Adani Group, BHEL, SAIL and Kota and Suratgarh thermal plant.

Comfortable solvency position

The capital structure of the company continued to remain comfortable with comfortable overall gearing mainly due to scheduled repayment of term loans. Furthermore, debt service coverage indicators stood comfortable.

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

Key Rating Weakness

Decline in Total Operating Income (TOI) with moderate profitability margins in working capital intensive industry

During FY16, TOI of SCBL has declined primarily on account of cancellation of orders in the coal industry and sluggish demand from mining sector. Despite decline in TOI, profitability margins remain moderate mainly on account of decrease in Average Purchase Price (APP) of its primary raw materials (rubber and steels).

The operations of the company remained working capital intensive as reflected by elongated operating cycle which deteriorated in FY16. Furthermore, with launch of a new product, steel cord conveyor belting, in FY16, there was increase in inventory and receivables mainly to cater the new product in the industry and to establish new product in the market. The average utilisation of working capital limits remained high.

Volatility associated with raw material prices with presence in the highly fragmented and competitive industry

The conveyor belt industry is an intensely competitive industry, marked by the presence of numerous players in both the organized and unorganized sector which exerts pressures on profitability of all the players in the industry.

The major raw materials used are natural rubber, synthetic rubber, fillers such as carbon black, silica and clay, other vulcanising agents, zinc oxide and cotton or synthetic fabric, prices of which volatile. Raw material constituted major portion of the total production cost of SCBL. This exposes the company to adverse movements in the prices of raw materials especially on account of the fact that finished goods prices are fixed at the time of receipt of orders.

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

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

About the Company

Jodhpur-based (Rajasthan) Somi Conveyor Beltings Limited (SCBL) was incorporated in 2000 and is engaged in the manufacturing of rubber conveyor belts. The company manufactures various grades of conveyor belts used for industrial applications including material handling and transportation in various industries like mining, power, cement, fertilizer, steel and sugar among others. SCBL caters to the domestic as well as the export market under the brand name 'SOMIFLEX'. The company has two plants located at Sangaria and Tanwara, Jodhpur having a total manufacturing capacity of 9,00,000 Meters Per Annum (MPA) and 5000 pieces of rubber sheets per annum. The plants are certified as ISO 9001: 2008 for quality management systems.

During FY16 (refers to the period April 1 to March 31), SCBL has reported a total operating income of Rs.59.52 crore and net profit of Rs.2.29 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

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/ ST-Cash Credit	-	-	-	18.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-ILC/FLC	-	-	-	8.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	12.00	CARE A3+
Fund-based - LT-Term Loan	-	-	-	6.63	Withdrawn

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Mar-15)	1)CARE BBB (02-Jan-14)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	18.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB / CARE A3+ (17-Mar-16)	1)CARE BBB / CARE A3+ (30-Mar-15)	1)CARE BBB / CARE A3+ (02-Jan-14)
3.	Non-fund-based - ST-ILC/FLC	ST	8.00	CARE A3+	-	1)CARE A3+ (17-Mar-16)	1)CARE A3+ (30-Mar-15)	1)CARE A3+ (02-Jan-14)
4.	Non-fund-based - ST-Bank Guarantees	ST	12.00	CARE A3+	-	1)CARE A3+ (17-Mar-16)	1)CARE A3+ (30-Mar-15)	1)CARE A3+ (02-Jan-14)
5.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB (17-Mar-16)	1)CARE BBB (30-Mar-15)	-

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