Somi Conveyor Beltings Limited

March 23, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities/ Short-term Bank Facilities	18.00	**CARE BBB; Negative/CARE A3+ (Triple B; Outlook: Negative/ A Three Plus)**	**Revised from CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable / A Three Plus)**
Short-term Bank Facilities	20.00	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total facilities	**38.00 (Rs. Thirty-eight crore only)**		

Detailed Rationale & Key rating Drivers

The revision in the outlook from 'Stable' to 'Negative' is on account of elongation in its operating cycle owing to continuous increase in inventory and debtor period

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 material handling 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 presence 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.

Ability of SCBL to increase its 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

Increase in Total Operating Income (TOI) although decline in profitability margin

During FY17, TOI of SCBL has grew by 10.71% over FY16 and stood moderate at Rs.65.89 crore mainly due to increase in export sale. As per provisional result of 9MFY18, SCBL has achieved TOI of Rs.53.15 crore with PBILDT and PAT margin of 12.17% and 1.24% respectively

The profitability margins stood moderate with PBILDT and PAT margin of 15.43% and 1.29% respectively in FY17 against 23.78% and 3.84% in FY16, the decline in PBILDT margin during FY17 was primarily due to increase in cost of material consumed as well as increase in employee cost.

Further, the company has order book position of Rs.40 crore as on February 23, 2018 which is about 0.61 times of TOI of FY17.

Comfortable solvency position

The overall gearing improved and remained at 0.51 times as on March 31, 2017.

Further, debt service coverage indicators remained moderate marked by total debt to GCA of 4.32 times as on March 31, 2017 and interest coverage of 3.17 times during FY17.

Experienced promoters

The company affairs are looked after by Shri O. P. Bhansali, Chairman & Managing Director, who is having more than 30 years of experience in the material handing industry. He is assisted by his sons, Shri Vimal Bhansali and Shri Gaurav Bhansali, Whole time Directors, who looks after business development and general administration activities respectively.

Key Rating Weaknesses

Working capital intensive nature, further intensified by elongation in its inventory holding period

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

The **operating cycle of the company remained higher and it has further** elongated to 270 days in FY17, primarily on account of increase in inventory period . Further, the average utilization of working capital limits remained higher at about 95% during last 12 months ended December, 2017.

Volatility associated with raw material prices
The major raw materials used are natural rubber, synthetic rubber, fillers such as carbon black, silica and clay, other vulcanizing agents, zinc oxide and cotton or synthetic fabric most of which are prone to high price volatility. Further, the company is continuously securing orders which are of long duration which takes around 2 to 3 years time to execute the projects. As per the policy matter, these contracts are fixed price contracts and no price escalation is applicable and the company purchases and keeps the inventories for these types of contracts from the date of start of these contracts, which resulted in increased level of inventory continuously. 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
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

Outlook: Negative
The outlook is revised to 'Negative' on account of elongation in its operating cycle owing to continuous increase in inventory and debtor period. The outlook may be revised to 'Stable' in the event of improvement in its inventory and debtor collection period led reduction in operating cycle.

Background of the Company
Jodhpur (Rajasthan) based 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.

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17(A)**
Total operating income	59.52	65.89
PBILDT	14.15	10.17
PAT	2.29	0.85
Overall gearing (times)	0.59	0.51
Interest coverage (times)	3.85	3.17

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History (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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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; Negative / CARE A3+
Non-fund-based - ST-ILC/FLC	-	-	-	8.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	12.00	CARE A3+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (30-Mar-15)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	18.00	CARE BBB; Negative / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (03-Mar-17)	1)CARE BBB / CARE A3+ (17-Mar-16)	1)CARE BBB / CARE A3+ (30-Mar-15)
3.	Non-fund-based - ST-ILC/FLC	ST	8.00	CARE A3+	-	1)CARE A3+ (03-Mar-17)	1)CARE A3+ (17-Mar-16)	1)CARE A3+ (30-Mar-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	12.00	CARE A3+	-	1)CARE A3+ (03-Mar-17)	1)CARE A3+ (17-Mar-16)	1)CARE A3+ (30-Mar-15)
5.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (03-Mar-17)	1)CARE BBB (17-Mar-16)	1)CARE BBB (30-Mar-15)

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