Somi Conveyor Beltings Limited

April 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities	18.00	**CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING * (Double B Plus, Outlook: Stable/ A Four Plus; Issuer Not Cooperating)**	**"Issuer not cooperating; Based on best available information"**
Short-term Bank Facilities	20.00	**CARE A4 Plus; ISSUER NOT COOPERATING* (A Four Plus ; Issuer Not Cooperating)**	**"Issuer not cooperating; Based on best available Information"**
Total facilities	**38.00 (Rs. Thirty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Somi Conveyor Beltings Limited (SCBL) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE's rating on SCBL's bank facilities will now be denoted as **CARE BB+; Stable/A4+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings assigned to the bank facilities of Somi Conveyor Beltings Limited (SCBL) continue to remain constrained owing to its modest scale of operations with moderate order book position in a competitive and fragmented conveyor belt industry and stretched liquidity position. The ratings, further, continue to remain constrained on account of volatility associated with raw material prices and foreign exchange rate.

The ratings, however, continue to derive strength from wide experience of the promoters in the industry with established track record of operations, diversified and reputed customers base, moderate profitability margins and comfortable solvency position.

Detailed description of the key rating drivers

At the time of last rating on July 24, 2019 the following were the rating strengths and weaknesses (updated for the information available from client).

Key Rating Weaknesses

Marginal decline in Total Operating Income (TOI) in FY19, however remained moderate

During FY19, TOI dipped marginally by 5.19% over FY18 owing to decline in orders in domestic market which offset to an extent by increase in export. The income from domestic market comprises of 66.69% of TOI in FY19 (against 93.76% in FY18) and export income of 33.31% (against 8.35% in FY18).

Moderate order book position

As on January 28, 2020, it has order book position of Rs.37.14 crore consisting Rs.1.10 crore of exports orders and Rs.24.75 crore of government orders. It majorly executes orders for Bharat Heavy Electricals Limited, Rajasthan Rajya Vidyut Utpadan Nigam Ltd , Maharashtra State Power Generation Company, Steel Authority of India Limited, Hindustan Petroleum Corporation Limited, NLC India Limited, Hindustan Copper Limited, Hind Energy & Coal Benefication (India) Limited, Reliance Industries Limited, Aryan Clean Coal Technologies Private Limited and so on. The orders will be completed in next 12-15 months reflecting moderate order book position although the impact of COVID-19 is yet to seen on timely order execution and availing new orders during the period.

The epidemic Covid-19 has halted the business operations of the company. In view of the national lockdown imposed by the government to contain the spread of virus, the company has shut down its plant located in Jodhpur, Rajasthan from March 20, 2020.

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

Elongated process of production owing to capital nature of goods

As per the nature of business, normal delivery period is long and needs production planning for specific type of conveyor belts as per the requirement and order received from the customer. Further most of the delivery orders for finished goods are long term in nature and price is decided at the time of acceptance of purchase order. Thus, all orders are fixed price contract.

Further, major raw materials used in the process are rubber, steel, fabric and chemicals. The prices of these materials are highly volatile on account of direct linkage to prices in the international market. Thus the company purchase part of its raw-material requirement whenever the prices are comfortable and at any given point of time SCBL keeps inventory of around 30-40% of its order amount.

Furthermore, due to specific type of Conveyor Belts required by clients usually inspection of the goods is done by the buyer or outside agency and goods are dispatched after clearance, this process further results in long inventory of stocks.

Volatility associated with raw material prices and foreign exchange rate

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 most of which are prone to high price volatility. Raw material constituted around 90% of the total production cost of SCBL. Further, the average production time for conveyor belts is approximately two months due to which SCBL is required to maintain high levels of raw material inventory. 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.

Further, the company is exposed to foreign exchange fluctuation risk as it derives 33.31% of its revenue from the export sales. This un-hedged portion is exposed to foreign currency fluctuation risk.

Key Rating Strengths

Experienced promoters

The company affairs are looked after by Mr O. P. Bhansali, Chairman & Managing Director, who is having more than 30 years of experience in the conveyor belt industry. He is assisted by his sons, Mr Vimal Bhansali and Mr Gaurav Bhansali, Whole time Directors, who looks after business development and general administration activities respectively. They are also assisted by senior level management team and functional heads of Marketing, Finance, Operations, Commercial and Administration.

Moderate profitability margins

The profitability margins remained moderate with PBILDT and PAT margin of 14.99% and 2.53% in FY19 respectively as against 15.12% and 1.57% respectively in FY18. PBILDT margin of the company has dipped marginally by 14 bps in FY19 over FY18 mainly on account of decretion in value of finished goods.

However, PAT margin has improved by 96 bps in FY19 over last financial year owing to decrease in depreciation cost which is offset by creation of deferred tax liability in the year against deferred tax asset in previous years. However, GCA level dipped marginally by 6.61% in FY19 over FY18 due to decrease in depreciation cost and remained moderate at Rs.5.07 crore in FY19.

Comfortable solvency position

Out of the total debt of Rs.24.90 crore, Rs.18.98 crore comprises of working capital bank borrowings and balance of Rs.5.92 crore relates to unsecured loans from the director. The capital structure of the company remained comfortable with overall gearing stood at 0.43 times as on March 31, 2019 against 0.47 times as on March 31, 2018. Further, the overall gearing including acceptances remained comfortable at 0.52 times as on March 31, 2019.

Furthermore, debt service coverage indicators remained comfortable with total debt to GCA of 5.91 times as on March 31, 2019, deteriorated marginally from 5.28 times as on March 31, 2018 mainly due to increase in LC backed creditors which stood at Rs.5.09 crore. The interest coverage ratio remained comfortable at 2.59 times in FY19.

Liquidity: Stretched

As per the policy matter, all the contracts executed are fixed price contracts with no price escalation clause and the company purchases and keep the inventories for these types of contracts from the date of start of these contracts, which resulted in increased level of inventory continuously. Further, increase of debtors level is also related to long term project contracts wherein the part of payment terms are related to commissioning and installation(10-15 % of total sales value) which generally takes 6-12 month time.

Therefore, it resulted in elongated operating cycle which further deteriorated in FY19 and stood at 353 days as against 323 days in FY18. Due to higher investment in the inventory and receivables, the current ratio remained moderate at 1.87 times as on March 31, 2019, however, quick ratio remained below unity at 0.81 times as on March 31, 2019. Further, the average utilisation of fund based stood almost fully utilized and non-fund based stood at around 70% during last 12 months ended

January, 2020. Cash and bank balance stood at Rs.2.69 crore as on March 31, 2019. However, as per the interaction with the banker, the company has not opted for moratorium yet.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
Criteria on assigning 'outlook' and 'credit watch' 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
Jodhpur (Rajasthan) based Somi Conveyor Beltings Limited (SCBL) was incorporated in 2000 and is engaged in the manufacturing of rubber and steel cord 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)	**31-03-2018**	**31-03-2019**
	A	**A**
Total operating income	64.35	61.01
PBILDT	9.73	9.14
PAT	1.01	1.55
Overall gearing (times)	0.51	0.52
Interest coverage (times)	2.64	2.60

A:Audited

In 9MFY20, the company registered TOI of Rs.39.02 crore with PBILDT and PAT margin of 16.63% and 2.08% 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

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 BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-ILC/FLC	-	-	-	8.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	12.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	18.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB+; Stable / CARE A4+ (24-Jul-19)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE BBB; Negative / CARE A3+ (23-Mar-18)
2.	Non-fund-based - ST-ILC/FLC	ST	8.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4+ (24-Jul-19)	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE A3+ (23-Mar-18)
3.	Non-fund-based - ST-Bank Guarantees	ST	12.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4+ (24-Jul-19)	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE A3+ (23-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.

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Mr Abhishek Jain
Group Head Contact no.- 0141-4020213/14
Group Head Email ID- abhishek.jain@careratings.com

Business Development Contact
Name: Mr Nikhil Soni
Contact no. : 0141-4020213/14
Email ID : nikhil.soni@careratings.com

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