

Somi Conveyor Beltings Limited

July 24, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term/Short-term Bank Facilities	18.00	CARE BB+; Stable/CARE A4+ (Double B Plus; Outlook:Stable/ A Four Plus)	Reaffirmed and revoked from Issuer Not Cooperating
Short-term Bank Facilities	20.00	CARE A4+ (A Four Plus)	Reaffirmed and revoked from Issuer Not Cooperating
Total	38.00 (Rupees Thirty-eight crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Somi Conveyor Beltings Limited (SCBL) continue to remain constrained owing to 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, 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.

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

Detailed description of the key rating drivers

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 July 10, 2019, it has order book position of Rs.45.11 crore consisting Rs.4.03 crore of exports orders and Rs.29.14 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. The orders will be completed in next 12-15 months reflecting moderate order book position.

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.

Stretched liquidity position

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

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 utilization of fund based stood almost fully utilized and non-fund based stood at 63.92% during last 12 months ended March, 2019. Cash and bank balance stood at Rs.2.69 crore as on March 3, 2019.

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 Shri 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, Shri Vimal Bhansali and Shri Gaurav Bhansali, Whole time Directors, who look 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 decrease 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.

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-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

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)	FY18 (A)	FY19(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

Status of non-cooperation with previous CRA: None

Any other information: None

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+
Non-fund-based - ST-ILC/FLC	-	-	-	8.00	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	12.00	CARE A4+

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/ ST-Cash Credit	LT/ST	18.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE BBB; Negative / CARE A3+ (23-Mar-18)	1)CARE BBB; Stable / CARE A3+ (03-Mar-17)
2.	Non-fund-based - ST-ILC/FLC	ST	8.00	CARE A4+	-	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE A3+ (23-Mar-18)	1)CARE A3+ (03-Mar-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	12.00	CARE A4+	-	1)CARE A4+; ISSUER NOT COOPERATING* (31-Dec-18)	1)CARE A3+ (23-Mar-18)	1)CARE A3+ (03-Mar-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (03-Mar-17)

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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