Press Release

Sagar Metallics Private Limited

January 28, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	14.57	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Assigned
	Total	**14.57**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of **Sagar Metallics Private Limited** draws comfort from its experienced promoters and top Management, Reputed Clients and Growing scale of operations with a geographical advantage in Surat. However, these rating strengths are partially offset by fluctuations in margins due to volatile nature of raw material prices and intense competition in the industry.

Key Rating Sensitivities:

Upward Factor:

- Continuous improvement in the operating margin combined with adequate cash accruals leading to high reinvestment in the company
- Diverse product portfolio combined with high geographical diversity, thus reducing concentration risk in case of natural disasters

Downward factor:

- Large debt-funded capex plans leading to weakening of the capital structure
- Working capital cycle is stretching more year on year, thus requiring more working capital requirements and weakening the financial risk profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive promoter experience in the industry

Sagar Metallics Private Limited is a private company which was established in 2009. The company is engaged in the business of manufacturing lacquered polyester film and badlazari. The key promoters, Mr. Sureshbhai Patel & Mr. Jayantibhai Patel have over a decade of experience in the textile industry. Thus, the company has been able to take advantage of the long-standing relations with both the customers and the suppliers. As most of the key personnel are of the same extended family, the organizational operations are managed with utmost care and information.

Geographical advantage through presence in Surat

The company operates in Surat city of Gujarat, which is a textile hub. The city has a number of small and unorganized players operating in the textile industry. This provides easy availability of raw materials, labour & logistics which reduces the cost of production thus improving operating & profitability margins.

Increasing scale of operations & good debt coverage indicators

The total operating income of SMPL increased marginally in FY20 from Rs. 111.28 in FY19 crore to Rs. 117.61 crore. Moreover, the EBITDA margin increased from 4.21 % in FY19 to 5.56% in FY20. The PAT Margin also increased significantly from 1.62% in FY19. The financial risk profile of the company is defined by its debt coverage indicators which have improved in the last 2 fiscal years. The overall gearing ratio has improved from 2.18 in FY19 to 1.49 in FY20.

Key Rating Weaknesses

Competitive and fragmented nature of the industry

The textile industry is competitive with a large number of small players that cater to the local demand. To reach economies of scale and have a larger market share, the company has to continuously invest in expanding facilities. Moderate scale of operations along with intense competition restricts the pricing flexibility of SMPL resulting in moderate operating margin 5-7% over the last three years through fiscal 2020. The modest scale of operations amid intense competition is expected to restrict SMPL's pricing and bargaining power over the medium term. As the company supplies to the textile industry, the products have to be priced conveniently so as to be competitive enough. This puts a pressure on the margins.

Fluctuations in margins due to volatile raw material prices

The prices of key raw materials, especially polyester films dependent upon crude oil prices, which are volatile in nature. Demand-supply dynamics also impact prices. The ability to pass on price risk to customers mitigates the exposure, but the working capital-intensive nature of operations should keep the company exposed to this risk. Even if the company is able to pass on the extra cost on to the customer, the customers might start preferring other competitors due to higher costs. The company needs to make sure that their costs are kept in check and do not eat into the profits being generated.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The company has adequate liquidity as seen by expected Gross Cash Accruals of Rs. 5-7 crore which are comparable to the debt obligations ranging around Rs. 1.02 crores from FY21-23. Its bank limits are utilized to the extent of ~94% during the past 12 months ended December 31, 2020 indicating a low liquidity buffer. The current ratio stands at 1.26 on March, FY20 with low cash & bank balance of Rs. 0.03 Crore. There is enough headroom in terms of gearing going into the future.

About the Company

M/S Sagar Metallics Pvt. Ltd. (SMPL) was incorporated on December 2009 at Surat, Gujarat. (erstwhile Sagar Melton Private Limited). Mr. Sureshbhai Patel is the Managing Director of the company. Mr. Jayantibhai B Patel and Mr. Ritaben Patel are other directors of the company. SMPL is engaged into manufacturing of lacquered polyester film and badlazari with an installed capacity of 1000 tonnes per day as on March 31, 2019. The products manufactured by the company find application in textile industry, while the final products are sold to yarn and fabric manufacturers in Surat as well as few Indian states like Karnataka, Tamil Nadu and Uttar Pradesh. The group entities of SMPL are Sagar Enterprise, Nirali Fashion, Sagar Corporation and Sagar Prints are into similar line of business.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	111.28	117.61
EBITDA	4.68	6.53
PAT	1.81	3.56
Total Debt	17.37	17.16
Tangible Net worth	7.98	11.49
EBITDA Margin (%)	4.21%	5.56%
PAT Margin (%)	1.62%	3.00%
Overall Gearing Ratio (x)	2.18	1.49

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	3.57	IVR BB+/ Stable	-	-	-
2.	Cash Credit	Long Term	11.00	IVR BB+/ Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Smriti Jetly

Tel: (011) 24611910

Email: sjetly@infomerics.com

About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Term Loan	-	-	-	3.57	IVR BB+/ Stable
Long Term Bank Facility- Cash Credit	-	-	-	11.00	IVR BB+/ Stable