

October 11, 2017

S&J Granulate Solutions Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Non-Convertible Debentures	5.00	[ICRA]D; Downgraded from [ICRA]BB-(Stable)
Total	5.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating to [ICRA]D (pronounced ICRA D) ¹ from [ICRA]BB- (pronounced ICRA double B minus) for the Rs. 5.00 crore² NCD facility of S&J Granulate Solutions Private Limited (S&J or the company).

Rationale

The revision in ratings follows recent adverse comments from S&J's banker, which indicated instances of delays in timely servicing of its bank facilities in recent past. This is mainly due stretched liquidity position owing to working capital intensive nature of business. ICRA also takes a note of the company's stretched capital structure and vulnerability of profitability to foreign exchange rate on accounts of imports.

Going forward, the company's ability to demonstrate a track record of timely debt servicing, driven by a sustained improvement in its liquidity position, will be the key rating sensitivity.

Key rating drivers

Credit strengths

- Steady growth in operating income driven by favourable demand for its key products in domestic market** - The operating income has witnessed a considerable growth as represented by the CAGR of ~70% between the period of FY2013-FY2017. The operating income has witnessed a growth of ~24% from Rs. 68.93 crore in FY2013 to Rs. 85.28 crore in FY2017, backed by an increasing demand of rubber granules from the consuming industry. Rubber granules are the key products of the company, which is used to manufacture cushioning materials for play grounds and other public areas popular for children and senior citizens. It is also used in the manufacturing of rubber moulded products like carpet padding, flooring materials, mats and sidewalks. With the increase in number of luxurious township projects and infrastructure development projects, the demand outlook for rubber granules seem to be positive.
- Forward and backward integrated of operations strengthen the sourcing capabilities and render support to profit margins** - The company has backward integrated its operations into in-house chopping of radial tyres, which will reduce the impurities such as stones in the raw materials, as well as strengthens its raw material sourcing capabilities. Further, it also plans to forward integrate its operations via addition of advanced rasper machines for manufacturing rubber granules upto 0.2 MM (presently it manufactures upto 0.8MM), steel cleanser machines to achieve almost 99% purity within steel wire and colour machines to manufacture coloured rubber granules. The forward and backward integration via the ongoing capex of Rs 23.00 crore shall improve the profitability in the near to medium term.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million

Credit weaknesses

- **Instances of delays in debt servicing on bank loans owing to strained liquidity position** - The company's operations remained working capital intensive as indicated by NWC/OI of 47% in FY2017. This is attributable to high inventory levels and slow realisation of payments from customers along with tight payable terms with its creditors. This has led to instances of delays in debt servicing of its term loan facility for bank. Further, the near term scheduled repayment of Rs. 10.28 crore in FY2018 is likely to keep cash flow position under stress.
- **Debt funded capital expenditure has led to leveraged capital structure and weak coverage indicators** - The company had undertaken a capex of Rs. 23.00 crore to forward and backward integrate its operations. Of the aforementioned capex, the company has completed project worth Rs. 16.00 crore in FY2017. The same has been funded through Rs. 13.00 crore loans from NBFCs, while the balance through internal accruals and promoters funding. The debt funded capex has led to stretched capital structure as represented by gearing level of 4.06 times as on March 31, 2017. The balance capex of Rs. 7.00 crore, for infrastructure development and setting up of additional shed within the factory unit, is scheduled to be incurred in FY2018. This is expected to be funded, by the promoters, through an infusion of unsecured loans. Due to the same, the capital structure is expected to remain stretched for the near to medium term.
- **Vulnerability of profit margins to foreign exchange rate movement on account of imports** - The raw materials for the company i.e. used / worn out tyres are imports from Europe and the Middle East, thereby, exposing it to foreign exchange fluctuation risks. However, the risk is mitigated, to certain extent, by passing on the currency fluctuation impact to its customers.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Policy of default recognitions](#)

About the company:

Incorporated in 2010, S&J Granulate Solutions Private Limited (S&J) is engaged in the business of recycling used/worn out tyres. The company imports used rubber tyres and through processing/recycling, separates rubber granules, steel wire and nylon fibre from tyres. The company's manufacturing facility is located at Lavachha along the Vapi Silvassa Road in Gujarat. The company is promoted by the Jiwarajka and Agarwal families.

S&J has recorded an operating profit of Rs. 14.27 crore and net profit of Rs. 4.52 crore on an operating income of Rs. 85.28 crore for the year ending March 31, 2017, as per the provisional statement. This is against an operating profit of Rs. 8.77 crore and net profit of Rs. 1.28 crore on an operating income of Rs. 68.93 crore for the year ended March 31, 2016, as per the audited statement.

Key financial indicators

	FY2016	FY2017 (Provisional)
Operating Income (Rs. crore)	68.93	85.28
PAT (Rs. crore)	1.28	4.52
OPBDIT/ OI (%)	12.72%	16.73%
RoCE (%)	10.09%	13.93%
Total Debt/ TNW (times)	4.45	4.06
Total Debt/ OPBDIT (times)	6.36	4.86
Interest Coverage (times)	2.26	3.12
NWC/ OI (%)	50%	47%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

Sr. No.	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month - year & rating in FY208		Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
				October 2017	September 2017	July 2016	-	-
1	NCD	Long term	5.00	[ICRA]D	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

*** Annexure-1**
Instrument Details

ISIN No.	Name of the instrument	Date of issuance	Coupon rate	Maturity	Size of the issue (Rs. crore)	Current Rating
INE529V08011	NCD	August 10, 2016	16.60%	August 24, 2019	5.00	[ICRA]D

Source: S&J Granulate Solutions Private Limited

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