

## S&J Granulate Solutions (P) Ltd

March 27, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
NCD	5.00	5.00	[ICRA]B (Stable); Upgraded from [ICRA]D

### Rating action

ICRA has upgraded the long-term rating to [ICRA]B (pronounced ICRA B)<sup>1</sup> from [ICRA]D (pronounced ICRA D) for the Rs. 5.00-crore<sup>2</sup> NCD of S&J Granulate Solutions (P) Ltd (S&J or the company). The outlook on the long-term rating is Stable.

### Rationale

The rating upgrade primarily factors in curing of past delays and regularisation in timely servicing of its debt obligation since November 2017. The ratings continue to factors in the healthy growth in S&J's operating income, given the steady demand for its primary product (rubber granules) in the key consuming industries. The rating notes its recent backward integration into shredding tyres, which will enable it to save on raw material sourcing cost, as well as its forward integration into steel cleansing and granule colouring, which will add value to its products, and thereby improve profitability in the medium term.

The rating, however, continues to remain constrained by S&J's weak capital structure as depicted by high gearing of 3.39 times and coverage indicator of total outside liabilities to tangible net-worth (TOL/TNW) of 3.94X as on March 31, 2017. This is attributable to the large debt funded capex incurred by the company in FY2017 to backward and forward integrate into its operations. The rating also notes the company's high working capital intensive nature of operations, as indicated by NWC/OI of 38% in FY2017, led by high inventory holding and extended credits to customers that have led to high utilisation of fund-based working capital limits. Furthermore, against the limited profitability and cash accruals, the company's stringent scheduled term loan repayment of ~Rs. 10.28 crore for FY2018, ~Rs. 5.75 crore in FY2019 and ~Rs. 8.58 crore in FY2020 is likely to keep its liquidity position stretched in the near to medium term. The rating further notes the vulnerability of S&J's profitability to adverse forex movements due its dependence on imports.

### Outlook: Stable

ICRA expects S&J to continue to grow at a moderate pace, backed by favourable demand for its products, while sustaining its margins backed by recent capex to forward and backward integrate into its operations. The outlook may be revised to Positive if considerable growth in revenue and profitability, and improvement in working capital management and liquidity profile strengthens the financial risk and operational risk profile. Conversely, the outlook may be revised to Negative if substantial decline in revenues and profitability, or if any major capital expenditure, or stretch in the working-capital cycle, weakens its liquidity and financial risk profile.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

<sup>2</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

**Curing of past delays and regularisation of account** – The company has shifted its bank lines from ‘The Cosmos Co-operative Bank Limited’ to ‘The Bharat Co-operative Bank Limited’ along with enhanced working capital facilities of up to ~Rs. 15.00 crore since October 2017. As per S&J’s bankers, the company has been regular in servicing its debt obligation since November 2017.

**Steady growth in operating income, driven by favourable demand for its key products in the domestic market** - The operating income has witnessed a considerable growth as represented by a CAGR of ~70% during FY2013–FY2017. The operating income witnessed a growth of ~24% to stand at Rs. 85.28 crore in FY2017 from Rs. 68.93 crore in FY2013, backed by an increasing demand for rubber granules from the consuming industries. Rubber granules are the key products of the company, which are used to manufacture cushioning materials for play grounds and other public areas popular for children and senior citizens. They are also used for manufacturing rubber-moulded products like carpet padding, flooring materials, mats and sidewalks. With the increase in luxury township projects and infrastructure development, the demand outlook for rubber granules seem to be positive.

**Forward and backward integration of operations strengthen 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 impurities such as stones from the raw materials, as well as strengthen its raw material sourcing capabilities. Further, it also plans to forward integrate its operations by the addition of advanced rasper machines for manufacturing rubber granules of up to 0.2 MM (presently it manufactures up to 0.8MM), steel cleanser machines to achieve almost 99% purity in steel wire and colour machines to manufacture coloured rubber granules. The forward and backward integration via the ongoing capex of Rs 23.00 crore will improve the profitability in the near to medium term.

### Credit challenges

**Debt funded capital expenditure leads 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 projects worth Rs. 16.00 crore in FY2017. The same was funded through loans of Rs. 13.00 crore from NBFCs, while the balance came from internal accruals and promoter’s funding. The debt-funded capex has led to a stretched capital structure as represented by gearing level of 4.06 times as on March 31, 2017. Further, as per the management, the balance capex of Rs. 7.00 crore, for infrastructure development and setting up of an additional shed within the factory unit, was incurred by March 2018, funded through the infusion of additional unsecured loans. Due to the same, the capital structure is expected to remain stretched for the near to medium term. The high debt levels have led to high interest cost and moderate coverage ratios. The coverage indicators as represented by the OPBDITA/I&F charges stood moderate at 2.43X during FY2017, while DSCR continued to remain weak at 1.06 times during FY2017.

**High working capital intensive nature of business owing to high inventory levels and slow realisation of payments from customers** - The company meets its raw material requirements mainly through imports from the European market. It usually takes almost 50-60 days for raw materials to reach factory units from its source, which requires S&J to maintain a high level of inventory. Coupled with extended credits to customers, these factors have led to high working capital intensity within the business and almost significantly higher utilisation of working capital bank limits even after enhancement of credit facilities. Working capital intensity in the business, as indicated by NWC/OI, remained high at ~38% during FY2017.

**Liquidity position continues to remain tight due to stringent repayment schedule and on-going capital expenditure plans** - Of the Rs. 26.71 crore term loans from banks and NBFCs as on March 31, 2017, the company needs to repay Rs. 10.28 crore during FY2018, ~Rs. 5.75 crore in FY2019 and ~Rs. 8.58 crore in FY2020. Stringent repayment schedule, against the limits profitability and cash accruals, the liquidity profile of the company is expected to remain tight in the near to medium term.

**Vulnerability of profit margins to foreign exchange rate movement due to imports** – The company’s raw materials—used/worn out tyres—are procured from Europe and West Asia, thereby exposing S&J to foreign exchange fluctuation risks. However, the risk is mitigated to a 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:**

[Corporate Rating Methodology](#)

### About the company:

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

S&J recorded a net profit of Rs. 4.97 crore on an operating income of Rs. 92.52 crore for the year ending March 31, 2017. This was against a 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. The company has achieved a turnover of ~Rs. 80.12 crore for 9M FY2018.

### Key financial indicators

	<b>FY2016 Audited</b>	<b>FY2017 Audited</b>
Operating Income (Rs. crore)	68.93	92.52
PAT (Rs. crore)	1.28	4.97
OPBDIT/ OI (%)	12.72%	16.53%
RoCE (%)	1.85%	5.37%
Total Debt/ TNW (times)	4.45	3.39
Total Debt/ OPBDIT (times)	6.36	4.15
Interest Coverage (times)	2.26	2.43
NWC/ OI (%)	50.06%	38.04%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Sr. No.	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating			Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					March 2018	October 2017	October 2017			
	NCD	Long term	5.00	5.00	[ICRA]B (Stable)	[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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE529V08011	NCD	August 12, 2016	16.43%	August 24, 2019	5.00	[ICRA]B (Stable)

Source: S&J Granulate Solutions (P) Limited.

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