

S&J Granulate Solutions (P) Ltd

November 15, 2018

Summary of rated instruments

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

Rating action

ICRA has downgraded the long-term rating to [ICRA]D (pronounced ICRA D) from [ICRA]B (pronounced ICRA B) for the Rs. 5.00 crore¹ NCD facility of S&J Granulate Solutions (P) Ltd (S&J or the company)².

Rationale

The revision in rating takes into account recent instance of delay in servicing of interest on NCD, as confirmed by the debenture trustee. The liquidity position of the company remained stretched 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.

Outlook: Not Applicable

Key rating drivers

Credit challenges

Recent delays in debt servicing: As confirmed by the debenture trustee, S&J has reported an instance of delay in servicing of interest on NCD issued by the company due to stretched liquidity position.

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 project 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. High debt levels have led to high interest cost and moderate coverage ratios. The coverage indicators as represented by the OPBDITA/Interest and financial charges stood moderate at 2.43X during FY2017, while DSCR continued to remain weak at 1.06 times during FY2017.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Stretched liquidity position due to high working capital intensive nature of business and repayment obligation - The company meets its raw material requirements mainly through imports from the European market. It usually takes ~60 days for raw materials to reach factory units from its source, which requires S&J to maintain a high level of inventory. This, coupled with extended credits to customers, has led to high working capital intensity in the business and 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. Further, the company has a term loan repayment obligation of 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](#)

[Policy of default recognitions](#)

About the company:

Incorporated in 2010, S&J Granulate Solutions (P) Ltd (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 Jivarajka 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 and a turnover of ~Rs. 80.12 crore for 9M FY2018 (as per the provisional figures).

Key financial indicators (Audited)

	FY2016 Audited	FY2017 Audited
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 (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016
						November 2018	March 2018	October 2017	October 2017	July 2016
1.	NCD	Long term	5.00	5.00	[ICRA]D	[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

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]D

Source: S&J Granulate Solutions (P) Ltd

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