Press Release

St. Mary's Rubbers Pvt Ltd

April 15, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based – Cash Credit	21.00	IVR BBB- / Positive Outlook (IVR Triple B Minus with Positive Outlook)
2.	Long Term Facility – Fund Based – Term Loan	15.86	IVR BBB- / Positive Outlook (IVR Triple B Minus with Positive Outlook)
3.	Short Term Facility – Fund Based – FBP backed by LC	6.00	IVR A3 (IVR A Three)
4.	Short Term Facility – Non Fund Based – Letter of Credit	5.00	IVR A3 (IVR A Three)
	Total	**47.86**	

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of the entity derives comfort from its established position in manufacturing and sale of surgical gloves and natural rubber, extensive experience of promoters, operational linkages among group companies along with a closely connected logistics network, average financial risk profile, healthy growth prospects due to increased demand for surgical and related equipment caused by the advent of Covid-19. However, the rating strengths are partially offset by moderate scale of operations & working capital intensive nature of operations, susceptibility to volatile rubber prices and intense competition.

The Outlook is Positive on account of industry tailwinds for surgical gloves arising from the COVID-19 crisis.

Key Rating Sensitivities

Upward factors:

- Ability to generate and sustain adequate cash flows in relation to its debt servicing obligations
- Sustained improvement in scale of operations
- Significant improvement in debt protection parameters

Downward factors:

- Further decline in operating margins
- Decline in debt protection and coverage parameters
- Weakening of liquidity profile along with further elevation of working capital cycle

Key Rating Drivers with detailed description

Key Rating Strengths

Established position in manufacturing and sale of surgical gloves and natural rubber

The group is an established player in the manufacture and sale of surgical gloves and natural rubber business with a strong presence through a wide distribution network. The group through its plant in Kanjirapally, Kottayam caters to the entire country and has a strong brand name being trusted brands in the rubber industry. The group's manufacturing capacity has grown significantly over the years through inorganic expansion which has helped strengthen its competitive position, through capacity enhancement along with an in-house facility for quality testing; their products have conformity to the EU and FDA quality standards.

Extensive experience of promoters

SMR Plantation & SM Rubber are private limited companies incorporated in 2014 & 2002 respectively. The company is promoted by Mr. Sunny Jacob and Mrs. Mini Sunny. They possess a considerable amount of experience in the field of rubber trade and processing. The promoters have been involved in the business for over two decades in the rubber trading and processing business.

Operational linkages among group companies along with a closely connected logistics network

The group companies source raw materials from each other. The horizontal integration in operations has had a positive impact on the overall cost structure of the company. The company has a good supplier network. Its top ten suppliers constitute around a miniscule portion of its total raw material purchases which indicates a well-diversified supply network. Further, majority of its suppliers are located in its close vicinity within the bounds of the location of the plants; which helps the company to save on logistics and mitigate any supply chain disruptions.

Average financial risk profile

The gearing of the group stands at 1.93x as on March 31, 2019. The current and quick ratio were 1.23 & 0.52 in FY19, respectively indicating stretched liquidity in the short-run. The total debt of the company stands at Rs. 106.57 crore as on March 31, 2019. the long term borrowing have been on a declining trend whereas they have ramped up their short term borrowings, which have been increasing steadily over the 3-year period.

Healthy growth prospects due to increased demand for surgical and related equipment caused by the advent of COVID-19

The company has seen its growth prospects grow largely due to the coronavirus outbreak which has led to the shutdown of apparel and related item manufacturers based out of China. The closing down of factories in the Mandarin coast has opened up growth prospects to India and Bangladesh as big-name manufacturers from US and Europe are forced to look at alternative sources for their production requirements. Further, exchange rate depreciation is beneficial for the company in the short term, this would also allow them to build new relationships with international clients thereby extending their base of customers.

Key Rating Weaknesses

Moderate Scale of Operations & working capital intensive nature of operations

The operating income of the group as at Rs. 226 crores in FY19. The average collection period was favourable at approximately 38 days, but the average inventory days stand at 114 days in FY19. This implies a working capital intensive operations where much of the group cash is locked up in inventory which has consequently stretched the operating cycle to 111 days in FY19 from 87 days in FY18, the gross operating cycle has also been on an increasing trend standing at 153 days in FY19. The average utilisation of the working capital limits during the last twelve months ended February 2020 was around 97%.

Susceptibility to volatile rubber prices and intense competition

Raw material accounts for over 88% of the total production cost. Rubber prices are highly volatile in nature. The group maintains an adequate amount of average inventory (which is ascertained by the orders in hand and by estimating future demand) and procures more rubber between periods of increased demand. Exports have declined significantly in FY2019 due to the constant volatility in international price of latex products and which has led to decline in sales in FY19, as a result of which inventory levels have also increased indicated by the increase in holding period to 114 days in FY19 as compared to 96 days in FY18. The EBITDA margins also remained constrained and range bound (within ~6% - ~8%) effected by the intense competition in the rubber industry. Going forward the company expects the demand to increase substantially given the current scenario and exports to boom as well, leading to greater revenue recognition in the tail-end of the financial year.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has taken the consolidated view of SMR Plantation Pvt. Ltd. (SMR Plantation) & its 100% subsidiary St. Mary's Rubbers Pvt. Ltd. (SM Rubber) together refer as SMR group for rating purpose. Additionally, SMR Plantation has also given the corporate guarantee to the debt taken by St. Mary's Rubber Pvt Ltd.)

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

Liquidity is stretched, marked by tightly matched accruals to repayment obligations, highly utilized bank limits and a strained cash balance. Further, the current ratio stands above unity at 1.23x in FY19. Going forward, the GCA is expected to improve with improved capacity utilization.

About the Group and Company

St. Mary's Rubbers Pvt Ltd (SMRPL) is a private limited company incorporated on 17th October, 2002. The company has plants located in Koovappally, Kanjirappally and Kottayam in Kerala. The production facility undertakes designing and production of surgical and examination gloves. The major activity that the company undertakes is the procurement of latex in ammoniated form and concentrating it by the centrifuging process into various grades of centrifuged latex (also called "Cenex"). In FY17, SMR Plantation acquired SM Rubber and subsequently the company became a wholly owned subsidiary of SMR Plantation. In 2017, SM Rubber transferred some plants to SMR Plantation, the transfer of assets was recognised in 2018 when all licenses with SM Rubber were transferred in the name of SMR Plantation. Currently, SMR Plantation undertakes the production of Latex and related goods and SM Rubber undertakes the production of surgical gloves, condoms, foams, elastic threads, rubber bands etc. The group is run by Mr. Sunny Jacob and his wife Mrs. Mini Sunny. Mr. Sunny Jacob has over 20 years of experience in the field of rubber trade and processing.

Financials (Consolidated)*:

For the year ended/ As On	**31-03-2018**	**31-03-2019**
	(Audited)	**(Audited)**
Total Operating Income	249.49	226.67
EBITDA	20.07	19.07
PAT	2.41	2.60
Total Debt	98.77	106.57
Tangible Net-worth	46.99	54.26
Ratios		
EBITDA Margin (%)	8.04	8.41
PAT Margin (%)	0.96	1.14
Overall Gearing Ratio (x)	2.09	1.93

* Classification as per Infomerics' standards

Financials (Standalone)*:

For the year ended/ As On	31-03-2019
	(Audited)
Total Operating Income	65.90
EBITDA	9.90
PAT	2.33
Total Debt	42.62
Tangible Net-worth	35.02
Ratios	
EBITDA Margin (%)	15.02
PAT Margin (%)	3.54
Overall Gearing Ratio (x)	1.21

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: India Ratings & Research in its press Release dated on March 27, 2020 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Facility – Fund Based - Cash Credit	Long Term	21.00	IVR BBB-/ Positive Outlook	--	--	--
2.	Long Term Facility – Fund Based – Term Loan	Long Term	15.86	IVR BBB-/ Positive Outlook	--	--	--
3.	Short Term Facilities – Fund Based – FBP backed by LC	Short Term	6.00	IVR A3	--	--	--
4.	Short Term Facilities – Non Fund Based – Letter of Credit	Short Term	5.00	IVR A3	--	--	--

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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 Facility –Fund Based - Cash Credit	NA	NA	Revolving	21.00	IVR BBB-/ Positive Outlook
Long Term Facility – Fund Based – Term Loan	NA	NA	Upto 2026	15.86	IVR BBB-/ Positive Outlook
Short Term Facilities – Fund Based – FBP backed by LC	NA	NA	Upto 180 days	6.00	IVR A3
Short Term Facilities – Non Fund Based – Letter of Credit	NA	NA	Upto 12 months	5.00	IVR A3