

November 17, 2017

## Sai Industries Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based limit – Cash credit	8.00	[ICRA]BBB-(Stable); Assigned
Fund-based limit – Packing credit	4.00	[ICRA]A3; Assigned

\*Instrument details captured under Annexure-1

### Rating action

ICRA has assigned the long-term rating of the Rs. 8.00-crore<sup>1</sup> cash-credit facilities of Sai Industries Private Limited (SIPL)<sup>2</sup> at [ICRA]BBB- (pronounced ICRA triple B minus). ICRA has also assigned the short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 4.00-crore packing credit facilities of SIPL. The outlook on the long-term rating is Stable.

### Rationale

While arriving at the ratings, ICRA has considered the business risk profile of SIPL along with its group companies, Bhagirathi Packaging Private Limited (BPPL) rated at [ICRA]BBB- (Stable)/[ICRA]A3, Kamakhya (India) Limited (KIL) rated at [ICRA]BBB- (Stable)/[ICRA]A3 and Sai Surfactants Private Limited (SSPL) rated at [ICRA]BBB-(Stable)/[ICRA]A3, since there are strong operational, financial and managerial linkages between the companies.

The assigned ratings take into account the established track record of the promoters in the poly-woven sacks industry and the increasing scale of company's operations over the last three years, supported by the addition of a new facility. Presence of the new facility in proximity to the ports extends support to the overall business position of the company given the high imports and exports by the company. SIPL also has established relations with its clients facilitating repeat orders from them; sales of the company to different sectors such as cement, fertiliser, sugar and miscellaneous industries through the traders and directly to the manufacturers also reduces concentration of company's sales to specific sectors.

The assigned ratings are however, constrained by SIPL's exposure to high client concentration risks with the top ten clients accounting for over 60% of the company's total sales in FY2017 and the stretched liquidity position of the company reflected by high utilisation of its bank limits. ICRA also notes that SIPL's profitability remains vulnerable to the fluctuations in foreign exchange rate given the high dependence of the company on import of raw material and export of finished goods. Absence of a formal hedging mechanism further aggravates the risk. The ratings also take into account the intense competition in the poly woven sacks industry given the presence of large number of players which exert pricing pressures on all major players including SIPL. The overall profitability of the company also remains vulnerable to fluctuations in raw material prices, particularly to the extent of inventory held by the company.

ICRA notes that the ability of the company to reduce its working capital requirement while increasing its scale of operation and maintaining profitability level would remain key rating sensitivities.

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

<sup>2</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

## Key rating drivers

### Credit strengths

- **Established track record of the promoters in the poly- woven sacks industry** – SIPL is promoted by the members of Fogla and Jeloka family, who have around three decades of experience in the Polypropylene (PP)/High density polythene (HDPE) woven sacks business. The day-to-day operations of the company are managed by the founder promoters. The promoters also own three other companies- BPPL, KIL and SSPL which are involved in similar line of business, that is manufacturing and sales of PP/HDPE woven sacks.
- **Increasing scale of operations; favourable location of the second facility improves access to the ports supporting the import of raw materials and export of finished goods** – SIPL's scale of operations has been improving over the last three years, on account of addition of its second facility in Kheda, Gujarat. Moreover, presence of the second facility in Kheda also provides easy access to the ports supporting the overall business position of the company given the high import of raw materials and exports of finished goods.
- **Established clientele and sales to different sector** – Around 77% of the company's total sales were exports in FY2017. SIPL has established relations with its clients in the export market over the years facilitating repeat orders from them. Since the exports of the company are mainly to traders in Europe and to sugar manufacturers in Africa, the company has its sales to different sectors such as fertiliser, cement, sugar and other miscellaneous industries.

### Credit weaknesses

- **High client-concentration risks with top 10 clients contributing over 60% of the total sales of the company** – SIPL is exposed to high client concentration risks with the top ten clients of the company contributing to over 60% of the company's total sales in FY2017.
- **Stretched liquidity position of the company as reflected by high utilisation of its bank limits** – The liquidity position of the company remains stretched as reflected by high utilisation of the bank limits sanctioned to the company.
- **Vulnerability of profitability of foreign currency exchange rate fluctuations** – The overall profitability of the company remains susceptible to the fluctuations in the foreign currency exchange rate fluctuations due to high dependence of the company on imports as well as exports. Absence of a formal hedging mechanism further aggravates the risks.
- **Intense competition owing to fragmented nature of poly woven sacks industry** - the plastic poly woven sack industry remains highly fragmented with many players operating predominantly in the small and medium scale sector leading to intense competition and pricing pressure.
- **Margins susceptible to volatility in raw material prices** –SIPL remains exposed to the volatility in the prices of raw material: polymers, which vary in line with crude oil prices. Moreover, since most of the contracts with the customers are for supply within a shorter time frame, it does not involve any cost escalation, thus exposing the company to fluctuations in polymer prices, particularly to the extent of inventory held by the company.

**Analytical approach:** For arriving at the ratings, ICRA has considered the business risk profile of SIPL along with its group companies BBPL, KIL and SSPL and applied the rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

**About the company:**

Incorporated in the year 2003, SIPL is a part of Fogla Group of companies based out of Kolkata. The company has been promoted by the members of Fogla and Jeloka family and is involved in the manufacture and export of PP/HDPE woven sacks and bags. SIPL has two manufacturing facilities of which one is located at Falta, West Bengal and the other is located at Kheda, Gujarat. While the Falta unit is an old facility of the company, the Kheda unit has started from December 2013. The combined installed capacity of the tape plant at both the unit is 9000 MT with utilisation of 85% in FY2017. During FY2017, 77% of the company's sales are exports and the balance ~23% is domestic sales.

**Key financial indicators**

	<b>FY2016</b>	<b>FY2017 (Prov)*</b>
Operating Income (Rs. crore)	75.84	84.09
PAT (Rs. crore)	1.34	2.45
OPBDIT/ OI (%)	7.13%	6.97%
RoCE (%)	8.82%	15.45%
Total Debt/ TNW (times)	1.62	1.38
Total Debt/ OPBDIT (times)	3.91	3.62
Interest Coverage (times)	3.55	3.29
NWC/ OI (%)	19%	20%

(Prov)\*: Provisional, 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:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on 31.12.2016	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2016
					November 2017	-	-	-
1	Fund-based Cash credit	Long-term	8.00	7.05	[ICRA]BBB-(Stable)	-	-	-
2	Fund-based-Packing credit	Short-term	4.00	N.A	[ICRA]A3	-	-	-

**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**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
	Fund-based Cash credit	-	9.5%	-	8.00	[ICRA]BBB-(Stable)
	Fund-based Packing credit	-	9.25%	-	4.00	[ICRA]A3

Source: the company

## Contact Details

### Analyst Contacts

**Jayanta Roy**

+91 33 7150 1100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Sujoy Saha**

+91 33 7150 1184

[sujoy.saha@icraindia.com](mailto:sujoy.saha@icraindia.com)

**Sumit Jhunjhunwala**

+91 33 7150 1111

[sumit.jhunjhunwala@icraindia.com](mailto:sumit.jhunjhunwala@icraindia.com)

### Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

### About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-  
79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills  
Road, Shivajinagar, Pune-411 020  
Tel: + 91-20- 6606 9999; Fax: +91-20-25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500