

November 15, 2019

SM LPG Cylinders Private Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	30.00	30.00	[ICRA]BB+ (Stable); reaffirmed
Non-fund based limits	5.00	5.00	[ICRA]A4+; reaffirmed
Total	35.00	35.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the muted growth in SM LPG Cylinders Private Limited's (SMPL) operating income (OI) and operating profit in FY2019. The OI is likely to degrow in FY2020 as well. However, this was accompanied with an improvement in gearing levels and coverage metrics in FY2019.

The ratings continue to favorably take into account the significant experience of the promoters and established track record of SMPL in the LPG cylinder manufacturing business. The ratings also take comfort from the company's comfortable debt protection metrics. However, the ratings remain constrained by the moderate scale of operations, low net worth base and working capital-intensive business. The ratings continue to factor in the stiff competition and the tender-based nature of the business.

The Stable outlook on [ICRA]BB+ rating reflects ICRA's belief that SMPL will continue to benefit from the extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Experienced management lends competitive edge – SMPL's management has more than a decade of experience in manufacturing LPG cylinders. Over the years, the promoters have gained a thorough knowledge of the markets. A long-term presence in the industry has helped the company establish relationships with several suppliers and customers.

Comfortable financial risk profile – SMPL's financial profile has remained comfortable over the years. As on March 31, 2019, the company had gearing of 1.16 times, interest coverage of 3.98 times and DSCR of 3.28 times. The company's working capital intensity was also comfortable at 17% in FY2019.

Credit challenges

High customer-concentration risk – With domestic oil manufacturing companies (OMCs) contributing over 90% to the revenues, the customer-concentration risks are likely to persist. Furthermore, as per conditions of the tendering process, raw material can be purchased only from approved vendors, restricting benefits from backward integration of facilities.

Tender-based order procurement – SMPL secures orders for supply of cylinders by participating in tenders floated by oil and gas companies. OMCs have a pre-selected list of suppliers that can participate in the bidding process. The revenues are linked to the company successfully winning a particular order.

Working capital intensive nature of operations – SMPL has working capital-intensive nature of business. Further, the company has relatively low net worth.

Liquidity position: Adequate

SMPL has an **adequate** liquidity position on account of undrawn working capital limits, which provide additional avenues of liquidity. The firm’s bank-funded limit utilisation averaged around 69% in the last 12-month period. Also, comfort may be drawn from the absence of any long-term repayment obligations as well as no major capacity expansion plans in the near term.

Rating sensitivities

Positive triggers: ICRA could upgrade the ratings if there is an increase in the scale of operations aided by the ramp up of capacity and improvement in the operating profit margin (OPM), leading to an improvement in the overall credit metrics of the firm.

Negative triggers: The ratings could be downgraded if a significant fall in operating profits leads to decline in interest cover to less than 2.5 times or increase in TOL/TNW above 2.5 times on a sustained basis. Inability to secure contracts from OMCs resulting in weakening of credit metrics could also lead to negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of SMPL

About the company:

SM LPG Cylinders Private Limited – erstwhile S M Cylinders (a unit of S.M. Sugars Private Limited) – is part of the Amba Group, which was co-promoted by Mr. Kamal Goel and Mr. Vijay Kumar Agarwal. The manufacturing of LPG cylinders is undertaken under SM LPG Cylinders Private Limited, which was incorporated in 1999. The company started its commercial production of LPG Cylinders from September 2001. The company has its single manufacturing facility at Greater Noida, Gautam Budh Nagar, Uttar Pradesh.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	164.50	171.90
PAT (Rs. crore)	3.42	4.94
OPBDIT/OI (%)	6.46%	6.36%
RoCE (%)	25.22%	24.55%
Total Outside Liabilities/Tangible Net Worth (times)	1.74x	1.66x
Total Debt/ OPBDITA (times)	1.79x	2.19x
Interest Coverage (times)	2.59x	3.98x
DSCR	2.17x	3.28x

Source: company data

Status of non-cooperation with previous CRA: Non-cooperation with Crisil Ratings, led to SMPL's rating being placed in the issuer not cooperating category vide release dated August 23, 2017. Crisil cited non-furnishing of information required for monitoring of ratings as the reason.

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 15, 2019	Date & Rating in FY2019 August 2, 2018	Date & Rating in FY2018 April 25, 2017	Date & Rating in FY2016
1	Fund based limits	30.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-
2	Non-fund based limits	5.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	-

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
NA	Fund based limits	NA	NA	NA	30.00	[ICRA]BB+(Stable)
NA	Non-fund based limits	NA	NA	NA	5.00	[ICRA]A4+

Source: SMPL

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