

Press Release

Unitec Fibres Private Limited

May 12, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (read as SMERA BBB) on the Rs. 30.00 crore bank facilities of Unitec Fibres Private Limited. The outlook is '**Stable**'.

Unitec Fibres Private Limited (UFPL), incorporated in 2005 is a Mumbai-based company engaged in the manufacturing of recycled polyester staple fibre (RPSF) from polyethylene terephthalate bottles. It also trades in polyester staple fiber (PSF) which constitutes around 5 percent of the total sales. The company was promoted by Mr. Virander Behl, Mrs. Devina Behl and Mr. Vijay Behl and has two manufacturing units at Boisar, Thane with total installed capacity of 180000 MTPA.

Key Rating Drivers

Strengths

- Established track record of operations and experienced promoters**

UFPL is engaged in the manufacturing of recycled polyester staple fibre from polyethylene terephthalate bottles for the last 12 years. Further, the company benefits from its experienced promoter, Mr. Virander Behl who possesses extensive experience of more than two decades in the textile industry.

- Healthy revenue growth**

UFPL has reported operating income of Rs. 125.84 cr in FY2015-16 as compared to Rs. 87.15 cr in the previous year thereby registering a growth of around 44 percent in FY2015-16. The growth in revenue is on account of addition in the installed capacity from 9600 MTPA to 18000 MTPA. Going forward, SMERA expects UFPL to sustain revenue growth driven by continuous addition in installed capacity and in the product line. Further, as informed by the management the company has reported operating income of Rs. 123.00 cr (provisional) during April, 2016 to January, 2017.

- Above average financial risk profile**

UFPL has above average financial risk profile marked by gearing at 1.15 times as on 31 March, 2016, interest coverage stood (ICR) at 4.33 times and debt service coverage ratio (DSCR) of 2.24 times in FY2015-16. The tangible networth stood at Rs. 19.87 cr as on 31st March, 2016 as against Rs. 18.68 cr in the previous year. Further, the company is expected to infuse capital of Rs. 5.83 cr in FY2017-18 which is expected to reduce reliance on external debt.

- Efficient working capital management**

UFPL has an efficient working capital management as the gross current assets stood at 75 days for FY2016 as compared to 98 days in FY2015. This is mainly on account low inventory of 20 days maintained by the company along with quick realisation of receivables in 46 days during FY2015-16. Further, the average cash credit limit utilisation stood at ~47 percent for the last six months ended as on January 31, 2017.

Weaknesses

• Fluctuating profitability

The company has reported operating margin of 7.37 percent in FY2016 as against 8.24 percent in the previous year. The decline is on account of forex loss incurred in FY2015-16 as against forex gain in the previous year. Further, the proportion of trading income has increased in the total sales mix in FY 2015-16 as compared to the previous year. Going forward, the company plans to install machinery to manufacture High Tenacity Coloured Sewing Thread which is expected to fetch higher margins compared to the existing products leading to improvement in the overall profitability.

• Susceptibility of profitability to volatility in raw material prices

The main raw material for RPSF is polyethylene terephthalate bottles, the prices of which are linked to crude oil prices alongwith its own demand supply dynamics. Hence, any adverse movement in crude oil prices can impact the profitability of UFPL. Further, around 17.03 percent of total sales are exported to Italy, England, Germany, France etc. whereas around 5.52 percent of its total purchases are imported from China. As a result, the company is exposed to foreign exchange fluctuation risk. However, the risk is mitigated as the company has forward cover limit to the extent of Rs. 11.30 cr and natural hedge to the extent of imports made during the year.

• Vulnerable to change in the indirect tax structure

The profitability of RPSF manufacturers is vulnerable to change in the indirect tax structure as RPSF currently enjoys a concessional excise duty rate which improves its competitiveness over VPSF. Any increase in duty on RPSF can affect competitiveness, demand, net realisations and profitability.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that UFPL will maintain a stable outlook over the medium term owing to its experienced promoters. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially while improving profitability and maintaining its liquidity profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in its area of operation or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, UFPL reported profit after Tax (PAT) of Rs. 1.18 cr on operating income of Rs. 125.84 cr as against PAT of Rs. 1.88 cr on operating income of Rs. 87.15 in the previous year. The net worth stood at Rs.19.87 cr as on March 31, 2016 as against Rs. 18.68 cr in the previous year.

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide release dated November 03, 2016 has suspended the ratings of UFPL on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	30-Mar-2018	0.66	SMERA BBB / Stable
Term loans	Not Applicable	Not Applicable	31-Jan-2020	6.48	SMERA BBB / Stable
Term loans	Not Applicable	Not Applicable	31-Aug-2021	3.92	SMERA BBB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA BBB / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5.94	SMERA BBB / Stable

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ABOUT SMERA

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