

Press Release

Unitec Fibres Private Limited

October 29, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Downgraded from ACUITE BBB/Stable and Outlook Revised)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 30.00 crore bank facilities of Unitec Fibres Private Limited (UFPL). The outlook is revised to '**Negative**' from '**Stable**'.

The downgrade is in view of stagnant growth in revenues and continuous decline in net cash accruals from operations along with continuous decline in profitability. The downgrade also factors in the liquidity pressures emanating from elongation of the operating cycle. Acuité believes that further decline in revenues and the profitability of UFPL will impart downward revision of the rating.

UFPL, a Mumbai-based company was incorporated in 2005. The company is engaged in manufacturing of recycled polyester staple fibre (RPSF) from polyethylene terephthalate bottles. The company is also engaged in trading of polyester staple fiber (PSF) which constitutes around 5 percent of the total sales. The company has two manufacturing units located in Boisar and Thane with a total installed capacity of 18,000 MTPA. The company is promoted by Mr. Virander Behl, Mrs. Devina Behl and Mr. Vijay Behl.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of UFPL for arriving at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoters**

UFPL is engaged in manufacturing of RPSF for the last twelve years. Further, the company benefits from its experienced promoter as Mr. Virander Behl possess experience of more than two decades in the textile industry. The established position has helped the company to maintain long standing relations with its customers and suppliers.

- **Comfortable financial risk profile**

The financial risk profile of the company continues to remain comfortable marked by net worth at Rs.27.90 crore as on 31 March, 2018 as against Rs.23.69 crore in the previous year. The improvement in net worth is on account of retained earnings and capital infusion by the promoters. The gearing stood at 0.99 times as on March 31, 2018 as against 0.86 times in the previous year. The total debt of Rs.27.94 crore as on March 31, 2018 comprises short term debt of Rs.15.26 crore, long term borrowing of Rs.8.30 crore and unsecured loan from related parties of Rs.1.43 crore. The interest coverage ratio (ICR) stood at 2.97 times and debt service coverage ratio (DSCR) at 1.39 times in FY2018 as against 4.33 times and 1.65 times respectively in the previous year. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.00 times as on 31 March, 2018 (Provisional) as against 1.86 times in the previous year.

Weaknesses

• Stagnant revenue growth

The company has reported operating income of Rs.132.77 crore for FY2018 (Provisional) as against Rs.130.16 crore in the previous year. The company has reported stagnant revenue growth of around 2 percent in operating income during FY2017-18 on account of the demonetization, GST implementation and slowdown in demand for RPSF. Also during FY2017-18, the operations were shifted to Silvassa Plant which affected the production for few months. However, same was supported by improvement in sales realisation. Further, as informed by the management, the company reported operating income of Rs.77.46 crore during April, 2018 to September, 2018. Going forward, Acuite expects improvement in business risk profile on account of stabilisation of demand for RPSF and improvement in capacity utilisation.

• Thin profitability along with susceptibility of the same to volatility in raw material prices and forex rates

The operating profitability stood at 7.28 percent for FY2018 as against 6.78 percent in the previous year. However, the profit after tax (PAT) stood at 0.51 percent for FY2018 as against 0.89 percent the previous year. The decline in PAT margin is on account of high interest outgo on account of significant increase in the debt levels in FY2018 over FY2017 and onetime non-operating loss during FY2018 on account of sale of investments in shares. The main raw material for RPSF is polyethylene terephthalate bottles, the prices of which are linked to crude oil prices along with its own demand supply dynamics; hence, any adverse movement in the crude oil prices may impact the profitability of UFPL. Further, around 9 percent of the total sales are exported to countries such as Italy, England, Germany, France, among others. Whereas, around 13 percent of its total purchases are imported from China. Hence, the company is exposed to foreign exchange fluctuation risk to the extent of unhedged position.

• Vulnerable to change in the indirect tax structure

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

Outlook: Negative

Acuite has changed the outlook of UFPL to 'Negative' based on stagnant growth in operations, continuous decline in net cash accruals and liquidity pressures emanating from elongation of the operating cycle. The rating may get downgraded if there is no improvement seen in the scale of operations or in case of sustained decline in the revenue profile leading to low profitability and deterioration in financial risk profile. The outlook may be revised to 'Stable' if the scale of operations increases substantially while improving its profitability and maintaining its liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	132.77	130.16	125.84
EBITDA	Rs. Cr.	9.66	8.82	9.27
PAT	Rs. Cr.	0.68	1.16	1.19
EBITDA Margin	(%)	7.28	6.78	7.37
PAT Margin	(%)	0.51	0.89	0.94
ROCE	(%)	7.81	9.26	19.33
Total Debt/Tangible Net Worth	Times	0.99	0.86	1.16
PBDIT/Interest	Times	2.97	4.33	4.33
Total Debt/PBDIT	Times	3.13	2.23	2.36
Gross Current Assets (Days)	Days	132	89	74

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
30-Jun-2018	Cash Credit	Long Term	13.00	ACUITE BBB Issuer not co-operating*
	Term Loan	Long Term	0.66	ACUITE BBB Issuer not co-operating*
	Term Loan	Long Term	6.48	ACUITE BBB Issuer not co-operating*
	Proposed Term Loan	Long Term	5.94	ACUITE BBB Issuer not co-operating*
	Term Loan	Long Term	3.92	ACUITE BBB Issuer not co-operating*
12-May-2017	Term Loan	Long Term	0.66	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	6.48	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	3.92	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	13.00	ACUITE BBB / Stable (Assigned)
	Proposed Long Term Loan	Long Term	5.94	ACUITE BBB / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.46	ACUITE BBB- / Negative (Downgraded from BBB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB- / Negative (Downgraded from BBB/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.71	ACUITE BBB- / Negative (Downgraded from BBB/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.83	ACUITE BBB- / Negative (Downgraded from BBB/Stable)

Contacts

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About Acuité Ratings & Research:

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