

Press Release

Skypet Polymers

March 29, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.24.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.24.00 crore bank facilities of SKYPET POLYMERS (SP). The outlook is '**Stable**'.

Established in 1999, SP is a partnership firm engaged in manufacture of PET preforms and PET bottles. SP was promoted by Mrs. S. Shanthi, Mr. S. Selvaraj and his wife, Mrs. Manimekalai. SP's manufacturing unit is located in Coimbatore (Tamil Nadu) with an installed capacity to manufacture 7000 Metric Tons Per Annum (MTPA). The main customers of SP include distilleries and bottled water companies.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SP to arrive at the rating.

Key Rating Drivers

Strengths

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

The partners, Mrs. S. Shanthi, Mr. S. Selvaraj and his wife, Mrs. Manimekalai have around two decades of experience in the plastic industry. The entity was established in 2005 and was gradually expanded to the present total capacity of 7000 MTPA. Prior to incorporating SP, the partners have worked in family owned entities engaged in plastic industry. Furthermore, long track record of operations has helped the firm to consistently grow its business over the years marked by turnover of Rs.43.02 crore in FY2018 as compared to Rs.33.20 crore in FY2017. Further, SP has booked turnover of Rs.47.40 crore in 9MFY2019 (Provisional).

Acuité believes that the partners' extensive experience in plastic industry would continue to benefit the business risk profile of the firm over the medium term.

- **Moderate financial risk profile**

SP's financial risk profile is moderate marked by moderate net worth, healthy debt protection measures, and low gearing. The net worth of SP increased to Rs.14.38 crore as on March 31, 2018 as against Rs.9.67 crore in the previous year on account of retention of profits and infusion of capital. SP has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.89 times over the last three years through 2016-18. The gearing stood healthy at 0.63 times on 31 March, 2018 as compared to 0.40 times as on March 31, 2017. Total debt of Rs.9.00 crore as on March 31, 2018 includes term loan of Rs.3.71 crore and working capital borrowing of Rs.5.29 crore. The Interest Coverage Ratio (ICR) stood healthy at 17.51 times in FY2018 as against 9.92 times in FY2017. Further, the operating margins have improved during FY18 vis-à-vis FY17 coupled with improvement in turnover which has resulted in net cash accruals of Rs.5.54 crore for FY2018 as compared to Rs.3.33 crore in FY2017. Debt/EBITDA stood healthy at 1.11 times as on March 31, 2018 as against 0.70 times as on March 31, 2017.

Considering the healthy growth in operating income and cash accruals, Acuité expects that SP will maintain its financial risk profile over near to medium term.

Weaknesses

- **Moderate working capital cycle management**

SP's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 115 in FY 2018 as compared to 106 days in FY2017. This is majorly on account of higher receivables period which stood at 97 days in FY2018 as compared to 88 days in FY2017. The inventory holding period stood healthy at 5 days in FY2018 as against 8 days in FY2017. The payables period has come down to 27 days in FY2018 from 87 days in FY2017. This has led to higher reliance on working capital borrowings; the cash credit limit in SP remains utilised at ~95 percent during the last 12 months period ended February 2018.

- **Risk of capital withdrawal**

Partnership constitution of SP renders it vulnerable to withdrawal of capital although the same has not been observed in the past.

- **Intense competition due to fragmented nature of the industry and moderate scale of operations**

SP is engaged in the manufacturing of plastic products. The plastic industry is primarily dominated by large players and characterised by high fragmentation and competition owing to relatively low entry barriers. High competitive pressure limits the pricing flexibility of the industry participants which induces pressure on profitability.

Liquidity Position:

SP has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. SP generated cash accruals of Rs.1.89-5.54 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.08-1.32 crore over the same period. The cash accruals of SP are estimated to remain around Rs.6.06-10.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.90-2.18 crore. SP maintained unencumbered cash and bank balances of Rs.1.08 crore as on March 31, 2018. The current ratio of SP stood moderate at 1.36 times as on March 31, 2018. SP is likely to incur capex of Rs.4.72 - 5.00 crore over the medium which will be funded by equity and external borrowing in the ratio of 75:25. Acuité believes that the liquidity of SP is likely to remain adequate over the medium term on account of growing cash accruals.

Outlook: Stable

Acuité believes that SP will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience in the industry. The outlook may be revised to 'Positive' in case of significant growth in its revenue while sustaining the profitability and liquidity. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capital expenditure or any stretch in its working capital operations leading to deterioration of its financial risk profile or liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	43.02	33.20	29.02
EBITDA	Rs. Cr.	7.96	5.10	3.08
PAT	Rs. Cr.	4.45	2.85	1.45
EBITDA Margin	(%)	18.50	15.35	10.60
PAT Margin	(%)	10.34	8.59	5.00
ROCE	(%)	38.01	39.18	44.17
Total Debt/Tangible Net Worth	Times	0.63	0.40	0.89
PBDIT/Interest	Times	17.51	9.92	7.38
Total Debt/PBDIT	Times	1.11	0.70	1.84
Gross Current Assets (Days)	Days	115	106	90

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>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3

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About Acuité Ratings & Research:

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