

Press Release

Skypet Polymers

May 14, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 24.40 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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**'.

Further, Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 0.40 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. Shanthy, 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

Acuite 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 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). Acuite 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 as 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 in 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, Acuite expects that SP will maintain its financial risk profile over near to medium term.

Weaknesses

- **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.

- **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.

- **Moderate working capital cycle management**

SP's operations are moderately working capital intensive as marked by gross current asset (GCA) of 115 days 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 remained utilised at ~95 percent during the last 12 months ended February 2018.

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. Acuite believes that the liquidity of SP is likely to remain adequate over the medium term on account of growing cash accruals.

Outlook: Stable

Acuite believes that SP will maintain a 'Stable' outlook 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Mar-2019	Proposed Bank Facility	Long Term	2.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A3 (Assigned)

*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 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.40	ACUITE BBB- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Reaffirmed)

*Inclusive of sublimit of LC of Rs.6.00 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Sushmita Murai Analyst - Rating Operations Tel: 022-49294033 sushmita.murai@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.*