Press Release

Sipani Fibres Limited

August 29, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 32.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE BBB minus)** on the Rs. 32.00 crore bank facilities of SIPANI FIBRES LIMITED. The outlook is **'Stable'**.

Bangalore-based, SFL was incorporated in 1994 by Mr. Rajkumar Sipani, Mrs. Kanchandevi Sipani and Mr. Anil Sipani. The company is engaged in manufacturing of HDPE Woven fabrics and sacks. The company has two manufacturing units of installed capacity of 24000 MTPA.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SFL to arrive at the rating

Key Rating Drivers

Strengths

- **Long track record of operations and experienced Management**

  SFL has long track record of over three decades in manufacturing of HDPE woven fabrics and sacks. The Directors, Mr. Rajkumar Sipani, Mrs. Kanchandevi Sipani and Mr. Anil Sipani, also have over three decades of experience in the polymer industry, and are well supported by a second line of management comprising Mr. Anurag Sipani. SFL has reputed clientele, who are leading players in the fertilizer industry such as SPIC Limited, RCF Limited and KRIBHCO Limited, among others. SFL's longstanding relationship with customers and suppliers aids the company in securing repeat orders on a regular basis and ensure continuous flow of raw materials at competitive price.
  Acuité believes that SFL will continue to benefit from their established presence in the industry over the medium term.

- **Healthy financial risk Profile**

  SFL has healthy financial risk profile marked by tangible net worth of Rs.89.29 crore as on 31 March, 2019 (Provisional). The gearing stood low at 0.38 times as on 31 March, 2019 (Provisional) as against 0.33 times as on 31 March, 2018. The total debt of Rs.33.52 crore as on 31 March, 2019 (Provisional) consists of working capital borrowings of Rs.17.27 crore term loans of Rs.7.95 crore and Rs.8.30 crore of unsecured loans from directors and other companies. The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) of 10.38 times in FY2019 (Provisional) as against 17.56 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.47 times as on 31 March, 2019 (Provisional) as compared to 0.44 times as on 31 March, 2018.
  Acuité believes that SFL will maintain its financial risk profile over the medium term in absence of major debt funded capex plan over medium term.

- **Moderate working capital requirements**

  SFL has moderate working capital operations marked by Gross Current Asset (GCA) days of 105 in FY2019 (Provisional) as against 93 days in FY2018. This is majorly due to the collection period of 30 days in FY2019 (Provisional). The inventory holding period stood at 23 days in FY2019 (Provisional). The average bank limit utilization of working capital borrowings stand at 29 per cent for the month ended in May 2019.
  Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

• Decline in margins albeit growing operating income

The operating and PAT margins of the company have declined to 6.03 per cent and 3.23 per cent in FY2019 (Provisional) from 8.23 per cent and 4.59 per cent in FY2018, respectively. The margins have reduced on account of increase in prices of HDPE granules. However, the operating income of the company has improved to Rs.267.92 crore in FY2019 (Provisional) from Rs.254.32 crore in FY2018. The improvement is on back of the capacity expansion to cater the increased demand. Acuité believes that the ability to pass on the raw material prices to its customers will be critical.

• Stiff competition in price conscious domestic market and susceptibility of margins to raw material prices

The company operates in a highly price sensitive domestic market that is largely fragmented with presence of several smaller players, which restricts its pricing flexibility. Furthermore, the key raw material for the operations are HDPE granules, which is a petroleum derivative and whose prices are volatile. However, the company majorly sources its raw material from the domestic suppliers of GAIL India Limited, Mangalore Refinery & Petro Chemicals Limited and Reliance Industries Limited, among others. Therefore, intense competition and volatility in raw material prices continues to constrain its ability to pass on the raw material prices and its pricing flexibility.

Liquidity Position

Liquidity is strong marked by accruals to the tune of Rs.11.06 crore in FY2019 (Provisional) against repayment obligations to the tune of Rs.2.50 crore. The current ratio of the company stood at 3.94 times and gross current asset days stood at 105 days in FY2019 (Provisional). The company had unencumbered cash and bank balances of Rs.19.42 crore as on March 31, 2019 (Provisional). The company's reliance on working capital borrowings is low; the cash credit limit in the company remains utilised at ~29 per cent during the last six months' period ended May 2019. The cash accruals of SFL are estimated to remain adequate during FY2020 to 2022 in the range of Rs.11.47 crore to Rs.12.55 crore. Acuité believes that the liquidity of the company is likely to remain strong over the near to medium term.

Outlook: Stable

Acuité believes that the outlook of SFL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if the company undertakes higher than expected debt funded capital expenditure resulting in deterioration in its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	267.92	254.32	207.84
EBITDA	Rs. Cr.	16.16	20.93	16.40
PAT	Rs. Cr.	8.65	11.68	8.91
EBITDA Margin	(%)	6.03	8.23	7.89
PAT Margin	(%)	3.23	4.59	4.29
ROCE	(%)	11.79	18.07	28.56
Total Debt/Tangible Net Worth	Times	0.38	0.33	0.50
PBDIT/Interest	Times	10.38	17.56	8.71
Total Debt/PBDIT	Times	2.05	1.19	1.95
Gross Current Assets (Days)	Days	105	93	119

Any other information

Not Applicable

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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	24.00*	ACUITE BBB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable (Assigned)

**Cash Credit contains sub-limit of WCDL of Rs.24.00 crore; Purchase Bill Discounting of Rs.24.00 crore; Bank Guarantee of Rs.12.00 crore.*

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