Press Release

Sipani Fibres Limited

December 22, 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs. 32.00 Cr.
Long Term Rating	ACUITE BBB /Stable (Upgraded)

* *Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.32.00 Crore bank facilities of Sipani Fibres Limited. The outlook is **'Stable'**.

The upgrade in the rating is on account of significant improvement in sales and profitability, healthy financial risk profile and strong liquidity position. The Company have shown a significant growth in the revenue in the current year as the company have achieved total revenue of ~Rs.175.62 Crore and the company is expecting to achieve a revenue of Rs.300.00 Crore by the end of the financial year. The EBITDA Margins improved and stood at 6.28 percent for FY2020 as against 5.95 percent in FY2019. This is mainly due to a decline in raw material cost. The PAT margin also improved slightly to 3.41 percent in FY2020 from 3.17 percent in FY2019. The net worth of the company stood high at Rs.101.74 Crore as on 31 March 2020 as against Rs.93.10 Crore as on 31 March 2019. The gearing level (debt-equity) stood at 0.06 times as on 31 March 2020 as against 0.28 times as on 31 March 2019. This is mainly due to lower reliance on external borrowings. The company generated cash accruals of Rs.11.23 Crore in FY2020 as against debt maturity obligation of ~Rs.2.00 Crore for the year. The company's working capital operations are moderate marked by gross current asset (GCA) days of 70 days in FY2020. As a result, the average utilization of bank limits stood low at ~4 per cent in the last six months ending October 2020.

About the Company

Bangalore-based, SFL was incorporated in 1994 by Mr. Rajkumar Sipani, Mrs. Kanchan devi 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. SFL is supplying sacks to fertilizer companies all over India for packaging of UREA and DAP. However, fabrics are being sold to companies which make bags for food and pesticide.

Analytical Approach

Acuité has considered the standalone business and financial risk profile 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 the manufacturing of HDPE woven fabrics and sacks. The Directors, Mr. Rajkumar Sipani, Mrs. Kanchan devi 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 a 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**
Company's financial risk profile of the company remained healthy marked by high net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.101.74 Crore as on 31 March 2020 as against Rs.93.10 Crore as on 31 March 2019. The net worth levels have seen significant improvement over the last three years on account of healthy accretion to reserves during the same period. The net worth also includes unsecured loan from directors and related parties amounted to Rs.7.68 Crore as that amount will sustain in the business for the longer run. The gearing level (debt-equity) stood at 0.06 times as on 31 March 2020 as against 0.28 times as on 31 March 2019. The total debt of Rs.6.13 Crore as on 31 March 2020 consists of long term debt of Rs.5.73 Crore, unsecured loan of Rs.0.17 Crore and working capital borrowings of Rs.0.23 Crore. The interest coverage ratio (ICR) stood at 10.31 times in as against 10.78 times in FY2019 due to high interest cost during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio increased to 1.83 times in FY2020 as against 0.42 times in FY2019. Debt to EBITDA stood at 0.38 times in FY2020 as against 1.60 times in FY2019.
Acuité expects the financial risk profile of the company to remain healthy over the medium term on account of healthy accretion to reserves and strong debt protection metrics, leading to lower reliance on external borrowings.

- **Comfortable Working capital**
The working capital management of the company stood comfortable in FY2020 marked by moderate Gross Current Assets (GCA) of 70 days in FY2020 as against 51 days in FY2019. The inventory and debtor levels stood at 43 days and 29 days in FY2020 as against 23 and 30 days in FY2019, respectively. The company usually maintains high amount of finished goods inventor. The creditor days stood at 1 day in FY2020 and same in FY2019 as well. As a result, the average utilization of bank limits stood low at ~4 per cent in the last six months ending October 2020.
Acuité believes that the working capital requirements will continue to remain comfortable over the medium term on account of timely payment from the customers and to the suppliers.

Weaknesses

- **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 the 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.

Rating sensitivity

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile

Material Covenant

None

Liquidity position: Strong

The Company has strong liquidity marked by high net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.11.23 Crore in FY2020 as against debt maturity obligation of ~Rs.2.00 Crore for the year. The cash accruals of the company are estimated to remain in the range of around Rs.14.00 Crore to Rs.18.00 Crore during FY2021-23 against the CPLTD of Rs.1.80 Crore each year for the same period. The company's working capital operations are moderate marked by gross current asset (GCA) days of 70 days in FY2020. As a result, the average utilization of bank limits stood low at ~4 per cent in the last six months ending October 2020. Company maintains unencumbered cash and bank balances of Rs.17.02 Crore as on 31 March 2020. The current ratio stands at 17.02 times as on 31 March 2020.

Outlook: Stable

Acuité believes that SFL will maintain a stable outlook over the medium term owing to its experienced management and improving financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while maintaining profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	253.24	267.92
PAT	Rs. Cr.	8.64	8.48
PAT Margin	(%)	3.41	3.17
Total Debt/Tangible Net Worth	Times	0.06	0.28
PBDIT/Interest	Times	10.31	10.78

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29 August, 2019	Cash Credit	Long Term	24.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	8.00	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term Loan	October-2018	Not Applicable	October-2023	4.43	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	3.57	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)

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About Acuité Ratings & Research:
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