

## Press Release

**Sipani Fibres Limited**

**March 21, 2022**

## Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.00	ACUITE BBB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	32.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed its long-term rating of 'ACUITE BBB' (read as ACUITE triple B) on the Rs.32.00 Crore bank facilities of Sipani Fibres Limited (SFL). The outlook is 'Stable'.

## 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

Acuite 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. Acuite believes that SFL will continue to benefit from their established presence in the industry over the medium term.

### **Above-average financial risk profile**

Financial risk profile of the company remained above-average marked by high net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.113.79 Crore as on 31 March 2021 as against Rs.94.06 Crore as on 31 March 2020. 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 gearing level (debt-equity) stood low at 0.07 times as on 31 March 2021 as against 0.15 times as on 31 March 2020. The interest coverage ratio (ICR) stood at 40.74 times in as against 10.31 times in FY2020 due to Low interest cost during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio increased to 2.66 times in FY2021 as against 0.81 times in FY2020. Debt to EBITDA stood at 0.26 times in FY2021 as against 0.86 times in FY2020. Acuité believes that the financial risk profile of the company to remain moderate on account of moderate net cash accruals.

### **Moderate Working capital management**

The working capital management of the company stood moderate in FY2021 marked by moderate Gross Current Assets (GCA) of 58 days in FY2021 as against 78 days in FY2020. The inventory and debtor levels stood at 26 days and 34 days in FY2021 as against 43 and 29 days in FY2020, respectively. The company usually maintains high amount of finished goods inventory. The creditor days stood at 2 days in FY2021 as against 1 days in FY2020 as well. As a result, the average utilization of bank limits stood ~71.6 percent in the last six months ending February 2022. Acuité believes that the working capital requirements will continue to remain moderate 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. Acuité believes that instability in raw material costs will proceed to be oblige to SFL in Long term.

#### **Limited capacity levels constraining revenue growth**

SFL works in a exceedingly competitive industry where the demand for the products is drastically expanded. SFL currently operating at full Capacity, in order to cope up with the stiff competition SFL have to increase the production capacity. Acuite believes that SFL will continue to operate in the installed capacity and no further increment in capacity will take place in the future.

### **ESG Factors Relevant for Rating**

Not Applicable

### **Rating Sensitivities**

- Significant improvement in the scale of operations while improving its profitability
- Significant Stretch in working capital cycle

## Material covenants

None

## Liquidity: Adequate

The Company has adequate liquidity marked by high net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.22.36 Crore in FY2021 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.14.9 Crore to Rs.16.00 Crore during FY2022-24 against the CPLTD of Rs.3.51 Crore in FY2022. The company's working capital operations are moderate marked by gross current asset (GCA) days of 90 days in FY2021. Company maintains unencumbered cash and bank balances of Rs.1.49 Crore as on 31 March 2021. Acuite believes that SFL will maintain adequate liquidity in long term.

## Outlook: Stable

Acuite 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.

## Other Factors affecting Rating

Not Applicable

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	295.25	253.24
PAT	Rs. Cr.	19.74	8.64
PAT Margin	(%)	6.68	3.41
Total Debt/Tangible Net Worth	Times	0.07	0.15
PBDIT/Interest	Times	40.74	10.31

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

Not Applicable

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Dec 2020	Term Loan	Long Term	4.43	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	24.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Proposed Bank Facility	Long Term	3.57	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
29 Aug 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.57	ACUITE BBB   Stable   Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	4.43	ACUITE BBB   Stable   Reaffirmed

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### About Acuité Ratings & Research

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