

Press Release
Sipani Fibres Limited

March 21, 2023



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BBB+ Stable Upgraded	-
Bank Loan Ratings	3.00	-	ACUITE A2 Assigned
Bank Loan Ratings	7.00	-	ACUITE A2 Upgraded
Total Outstanding Quantum (Rs. Cr)	35.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and upgraded the short term rating to '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.32.00 Crore bank facilities of Sipani Fibres Limited (SFL). The outlook is '**Stable**'.

Acuite has assigned its short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on additional Rs.3.00Cr bank facilities of Sipani Fibres Limited.

Rationale for rating

The rating is on account of extensive experience of the promoters, improving operations, strong relationships with suppliers, strong financial risk profile and efficiently managed working capital cycle. The operating performance of SFL has shown improvement in its operations in FY22 and continued the similar growth during 9MFY23. Further, healthy growth in absolute operating profits led to improvement in debt protection metrics. Also with low dependency on bank debts the financial risk profile of the company is expected to be strong in the medium term.

Going forward, the company's ability to sustain and further improve its scale of operations while maintaining its profitability margins and capital structure will be a key monitorable aspect.

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, experienced Management and improvement in operating income:

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 prices.

SFL has shown improvement in its operations in FY22. As the company has reported operating revenue of Rs.343.70Cr during FY22 against Rs.295.25Cr in FY21. This improvement in revenue is mainly contributed by healthy demand for HDPE products during the year. Similar growth is shown as per YTD figures till December, 2023. As the company has reported revenue of Rs.319Cr during the 9months of FY23 and estimated to reach Rs.400Cr by the year end.

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

Healthy Financial Risk Profile:

SFL's financial risk profile is healthy marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.130.81Cr as on March 31, 2022 as against Rs.113.79Cr as on March 31, 2021. The net worth level has improved significantly on account of healthy profits accretion to the reserves during FY22.

The gearing of the company stood low at 0.18 times as on March 31, 2022 as against 0.07 times as on March 31, 2021. Interest coverage ratio and Debt service coverage ratio stood at 17.7times and 5.81 times as on March 31, 2022. Total outside liabilities to total net worth stood low at 0.33 times as on March 31, 2022. Debt to EBITDA level is healthy at 0.85 times as on March 31, 2022.

Acuité believes that financial risk profile of the company is expected to remain above average over the medium term in absence of any debt funded capex plan.

Efficiently Managed Working Capital Cycle:

The working capital of the company is efficiently managed marked by moderate Gross Current Assets (GCA) of 101 days in FY22 as against 90 days in FY21. The inventory days increased to 58 days during FY22 against 26 days during FY21. The creditor days are low over the years in the range of 0-2 days from FY20 to FY22 and debtor days were in the range of 29-34 days over the last three years. The average utilization of bank limits stood 42.8 percent in the last 8 months ending November 2022. Acuité believes that continued efficient management of working capital cycle will remain a key rating monitorable.

Weaknesses

Susceptibility of profitability margins to changes in the raw material prices:

The profitability margins of SFL have been fluctuating over the last three years ended FY22. Operating margin stood at 8.11 percent in FY22 against 10.55 percent in FY21 and 6.28 percent in FY2020. PAT margins stood at 4.95 percent in FY22 against 6.68 in the previous year. The margins of the company are highly susceptible to fluctuations in raw material prices as the raw materials are based out of petroleum products.

Fragmented and competitive nature of industry

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. The 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 Sensitivities

- Significant improvement in the scale of operations while maintaining its profitability margins and capital structure
- Significant Stretch in working capital cycle.

Material covenants

None

Liquidity Position: Adequate

SFL has adequate liquidity marked by sufficient Net Cash Accruals (NCA's) against debt repayment obligations. The company has generated NCA's of Rs.20.48Cr in FY22 against the maturing debt obligations of Rs. 2.22Cr for the same period. SFL is expected to generate NCA's in the range of Rs.25Cr to Rs.31Cr and the debt repayment obligations are expected to be in the range of Rs.1.29Cr to 5.45Cr in the medium term.

The company has low unencumbered cash and bank balances at 0.01Cr as on March 31, 2022. The bank limits have been utilized in the range of 40-50 percent during the past 6 months ending November, 2022. Current ratio of the company stood at 2.84 times as on March 31, 2022.

Acuite believes that liquidity position of the company will remain adequate in the medium term on account of sufficient NCA's to repay the debt obligations.

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 and capital structure. Conversely, the outlook may be revised to 'Negative' in case of elongation in working capital cycle or incurring any significant debt funded capex plan adversely impacting the financial risk profile of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	343.70	295.25
PAT	Rs. Cr.	17.02	19.74
PAT Margin	(%)	4.95	6.68
Total Debt/Tangible Net Worth	Times	0.18	0.07
PBDIT/Interest	Times	17.70	40.74

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Mar 2022	Proposed Bank Facility	Long Term	3.57	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	4.43	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A2 Upgraded
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A2 Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB+ Stable Upgraded

-The long term loan was repaid, existing quantum was converted to short term instrument. Due to which the Upgrade for Rs.7Cr cannot be compare with previous year's instruments.

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About Acuité Ratings & Research

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