



Press Release
Sipani Fibres Limited
December 11, 2023

Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	25.00	ACUITE BBB Stable Downgraded	-
Bank Loan Ratings	10.00	-	ACUITE A3+ Downgraded
Total Outstanding Quantum (Rs. Cr)	46.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB+**' (read as **ACUITE triple B Plus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.35.00 Crore bank facilities of Sipani Fibres Limited (SFL). The outlook is '**Stable**'.

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on additional Rs.11Cr bank facilities of Sipani Fibres Limited (SFL). The outlook is '**Stable**'.

Rationale for downgrade of rating:

The rating downgrade considers Sipani Fibres Limited's (SFL) declined operating performance fueled by increase in raw material prices during FY23. The EBITDA margin of the company has been recording a declining trend over the past three years. It has further declined sharply to 4.07 percent in FY23 from 8.11 percent in FY22 on account of surge in raw material prices during the last 2 quarters of FY23. The operating margin is expected to remain in the range of 4-4.5 percent for FY24 as the raw material prices continued to be high during the current year and company's inability to pass on the burden to its customers on account of stiff competition. The company has reported revenue of Rs.379.25Cr in FY23 posting a growth of 10 percent on previous year revenue of Rs.343.70Cr. Further registered revenue of Rs.188Cr in the first 7 months of FY24. This growth in revenue is primarily on account of healthy demand for the products coupled by growth in sales volume. The rating continues to derive strength from the healthy financial risk profile and efficient working capital cycle.

Going forward, the company's ability in improving the EBITDA margin by passing on the burden of increase in raw material prices to its customers will be a key monitorable.

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 34000 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.

Unsupported Rating
Not Applicable

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 steady growth in revenue during FY23 as well. The company has reported operating revenue of Rs.379.25Cr during FY23 posting a growth rate of 10 percent against Rs.343.70Cr of FY22. This improvement in revenue is mainly contributed by healthy demand for HDPE products during the year. The company's operations were stable during the first 7 months of FY24. SFL has registered revenue of Rs.188Cr till October, 2023 however, moderation is expected in the revenue for the current year on account of low realisations for the products in the current year. Acuite believes that despite the low realisation rate the revenue is expected to be in the range of Rs.360-380Cr by end for FY24 on account of higher sales volume.

Efficiently Managed Working Capital Cycle:

The working capital of the company is efficiently managed in FY23 marked by Gross Current Assets (GCA) of 75 days in FY23 as against 101 days in FY22. The inventory days stood at 41 days during FY23 against 58 days during FY22. The creditor days are low over the years in the range of 0-2 days from FY21 to FY23 as the company makes upfront payment to its suppliers. Debtor days were in the range of 25- 35 days over the years. As a result, the average utilization of bank limits stood low at ~20 percent in the last 12 months ending September 2023. Acuite believes that the working capital operations will continue to remain comfortable over the medium term on account of timely payment from the customers and to the suppliers.

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.139.08Cr as on March 31, 2023 as against Rs.130.81Cr as on March 31, 2022. The improvement in net worth is primarily due to accretion of profits to reserves. The gearing of the company remained low at 0.09 times as on March 31, 2023 as against 0.18 times as on March 31, 2022. Interest coverage ratio and Debt service coverage ratio stood at 13.41times and 5.28 times as on March 31, 2023 against 17.70 times and 5.80 times respectively during FY22. Total outside liabilities to total net worth stood low at 0.21 times as on March 31, 2023. Debt to EBITDA level is healthy at 0.79 times as on March 31, 2022. Acuite believes that financial risk profile of the company will remain at healthy levels despite expected marginal deterioration over the medium term on account of debt infusion towards ongoing capex and expected low EBITDA for FY24 on account of high raw material prices.

Weaknesses

Declining operating profitability:

The company's EBITDA margins are declining over the past three years on account of increasing raw material prices. EBITDA margin has declined to 4.07 percent in FY23 against 8.11 percent in FY22. This sharp decline in margin is on account of high raw material prices during the last quarter of FY23 which has further led to net loss for the period. PAT margin has declined to 2.18 percent in FY23 against 4.95 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. SFL has Memorandum of understanding (MOU's) with several PSU's like GAIL India, MRPL and others. As per the agreement SFL has to purchase at least 90 percent of its raw materials from these PSU's. SFL generally undertakes orders of 6 months from a single customer where the price of the final product is decided on the first date of every month but the delivery of final product will be end of every month for the 6 months' period. With this mechanism SFL's margins will improve if the raw material prices are low during a month conversely margins will decline if the raw material prices increase during a month.

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 its profitability margins and capital structure
- Deterioration in working capital cycle.

All 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.11.95Cr in FY23 against the maturing debt obligations of Rs. 1.29Cr for the same period. SFL is expected to generate NCA's in the range of Rs.11Cr to Rs.20Cr and the debt repayment obligations are expected to be in the range of Rs.3.Cr to 3.5Cr in the medium term. The company has low unencumbered cash and bank balances at 0.64Cr as on March 31, 2023. The bank limits have been utilized at an average of ~20 percent during the past 12 months ending September, 2023. Current ratio of the company stood at 8.54 times as on March 31, 2023. 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

Acuité believes that SFL will maintain a 'Stable' outlook over the medium term owing to its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while improving profitability margins. Conversely, the outlook may be revised to 'Negative' in case of further decline in profitability or more than expected infusion of debt towards capex impacting the financial risk profile of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	379.25	343.70
PAT	Rs. Cr.	8.27	17.02
PAT Margin	(%)	2.18	4.95
Total Debt/Tangible Net Worth	Times	0.09	0.18
PBDIT/Interest	Times	13.41	17.70

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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 2023	Cash Credit	Long Term	25.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	7.00	ACUITE A2 Upgraded
	Bank Guarantee	Short Term	3.00	ACUITE A2 (Assigned)
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	10.00	ACUITE A3+ Downgraded
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB Stable Downgraded
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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