Press Release
SIPANI FIBRES LIMITED
March 07, 2025
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.00	ACUITE BBB | Stable | Reaffirmed	-
Bank Loan Ratings	10.00	-	ACUITE A3+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	46.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB' (read as ACUITE triple B**a**)**nd the short-term rating of '**ACUITE A3+' (read as ACUITE A three plus)** on Rs. 46.00 Cr. bank facilities of Sipani Fibres Limited (SFL). The outlook is **'Stable'**.

Rationale for the rating
The rating reaffirmation takes into consideration the established track record of operations along with long-standing experience of the management in the industry. The rating factors in the fact that while there has been moderation in revenue in FY24 on account of lower realisations owing to pass through of the decline in the raw material prices, the operating margins improved due to decline in input costs. Further, rating draws comfort from the timely completion of capex along with a healthy financial risk profile of the company driven by healthy net worth, low gearing (debt-equity) and strong debt protection metrics. However, the rating is constrained on account of moderate working capital operations coupled with susceptibility of raw material prices and intense competition which may affect the operating performance of the company.

About the Company

Bangalore-based, Sipani Fibres Limited (SFL) was incorporated in 1994 by Mr. Rajkumar Sipani, Mrs. Kanchan devi Sipani and Mr. Anil Sipani. The company is engaged in manufacturing of high-density polyethylene (HDPE) woven sacks and fabrics. SFL has two manufacturing plants in Karnataka, one in Mahadevapura and another in Narasapura, with a total production capacity of 34,000 MTPA. The company supplies sacks to fertilizer companies all over India for packaging of fertilisers like urea and di-ammonium phosphate. Further, 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 along with experienced management

SFL has long track record of over three decades in the manufacturing of HDPE woven fabrics and sacks. The directors also have over three decades of experience in the polymer industry and are well supported by a second line of management. The company deals with a reputed clientele, who are leading players in the fertilizer industry such as FACT Limited, RCF Limited, KRIBHCO Limited, among others. Therefore, 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 the long-standing experience of the management shall continue to benefit the company going forward, resulting in steady growth in the scale of operations.

Modest scale of operations albeit improving margins
The operating revenue of the company stood moderated at Rs. 333.92 Cr. in FY24 as compared to Rs. 379.25 Cr. in FY23. While the volumes increased, the decline in the topline pertains to the lower realisations owing to the pass through of the decline in the raw material prices in FY24. However, the EBITDA margins stood improved at 4.88 percent in FY24 as against 4.07 percent in FY23 on account of decrease in the input costs. The company secures the order via tendering process which makes the margins competitive in this industry. Further, as of January 2025, the company has clocked a revenue of Rs. 265.63 Cr. with a pending order book Rs. 64.04 Cr. Going forward margins are expected to be in the range of 5-6%. Furthermore, the company will be passing on the added advantage from the captive power plants to the customers to increase their chances of successful bids and eventually improve the volume of sales. Further, PAT margins stood at 2.28 percent in FY24 as compared to 2.18 percent in FY23.
Acuité believes that improvement in the scale of operations and profitability margins will remain a key rating sensitivity.

Healthy financial risk profile
SFL's financial risk profile is healthy marked by healthy net worth of Rs. 146.69 Cr. as on March 31, 2024 as against Rs. 139.08 Cr. as on March 31, 2023, owing to accretion of profits to reserves. The total debt of the company increased to Rs. 31.68 Cr. in FY24 as against Rs. 12.75 Cr. in FY23 on account of term loan availed for the capital expenditure and working capital borrowings which resulted in the increase of gearing (debt-equity) to 0.22 times in FY24 as compared to 0.09 times in FY23. However, the debt protection metrics remained strong with interest coverage ratio of 9.03 times in FY24 as against 13.41 times in FY23 and debt service coverage ratio at 2.80 times in FY24 as against 5.28 times in FY23.
Further, the company plans to install rooftop solar panels of 2.5 MW in the next fiscal year with the total expenditure of Rs. 9.5 Cr. which shall be funded through a combination of long-term debt and internal cash accruals.
Acuité believes that the financial profile of the company will remain at similar levels on the back of steady cash accruals and absence of any significant debt funded capex, shall be a key rating sensitivity.

Weaknesses

Moderate working capital operations
The working capital operations of the company are moderate marked by gross current assets (GCA) of 99 days in FY24 as against 74 days in FY23. The GCA days are majorly driven by higher other current assets consisting of advances to suppliers and loans & advances. Further, the inventory days stood at 56 days in FY24 as against 41 days in FY23. The company keeps an average inventory period of raw materials for 45 days. The debtor levels stood at 18 days in FY24 as compared to 21 days in FY23. The company provides an average credit period of 15-20 days to the fertilizer companies and 30-45 to the fabric customers. The creditor days are low over the years in the range of 0-1 days from FY22 to FY24 as the company makes upfront payment to its suppliers.

Competitive nature of industry along with susceptibility in raw material pricing trends
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 company procures orders via tenders and so they need to strategically price their products to make their bids successful. Further, the major raw material for the company is polypropylene plastic granules which is a crude oil derivative. Therefore, any changes in the crude oil prices affects the pricing of the raw material which continues to constrain its ability to pass on the fluctuations. Hence, profitability remains susceptible to adverse fluctuations in raw material cost.
Acuité believes that the fluctuations in the raw material pricing resulting in volatile margins will remain a key rating sensitivity.

Rating Sensitivities

- Volatility in raw material cost leading to deterioration in profitability margins
- Significant decline in scale of operations
- Substantial deterioration in working capital operations
- Inadequate cash accruals or any significant debt funded capex affecting the financial risk and liquidity profile

Liquidity Position
Adequate

The company's liquidity position is adequate marked by sufficient net cash accruals of Rs. 12.04 Cr. in FY24 as against maturing long term debt repayment of Rs. 3.12 Cr. over the same period. Going forward, the company is expected to generate net cash accruals of around Rs. 13-15 Cr. for FY25 & FY26 to repay its debt obligation ranging around Rs. 4.50-7.00 Cr. The cash and bank balances of the company stood at Rs. 0.05 Cr. as on March 31, 2024. The average bank limit utilisation of the fund-based limits stood at ~78.24 per cent for last six months ended January 2025. However, the utilisation tends to reduce over the month end with an average utilisation of ~1.81 percent for the last six months ended January' 2025. Further, the current ratio stood at 4.54 times as on March 31, 2024.

Outlook: Stable

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	333.92	379.25
PAT	Rs. Cr.	7.61	8.27
PAT Margin	(%)	2.28	2.18
Total Debt/Tangible Net Worth	Times	0.22	0.09
PBDIT/Interest	Times	9.03	13.41

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

Not Applicable

Interaction with Audit Committee anytime in the last 12 months (applicable for rated-listed / proposed to be listed debt securities being reviewed by Acuite)

Not applicable

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, Acuité 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
11 Dec 2023	Bank Guarantee (BLR)	Short Term	10.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Cash Credit	Long Term	25.00	ACUITE BBB | Stable (Downgraded from ACUITE BBB+ | Stable)
	Term Loan	Long Term	11.00	ACUITE BBB | Stable (Assigned)
21 Mar 2023	Bank Guarantee (BLR)	Short Term	7.00	ACUITE A2 Upgraded
	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
21 Mar 2022	Cash Credit	Long Term	24.00	ACUITE BBB | Stable (Reaffirmed)
	Term Loan	Long Term	4.43	ACUITE BBB | Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	3.57	ACUITE BBB | Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
ICICI Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	10.00	Simple	ACUITE A3+ | Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	25.00	Simple	ACUITE BBB | Stable | Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Term Loan	11 Feb 2023	Not avl. / Not appl.	31 Jan 2026	11.00	Simple	ACUITE BBB | Stable | Reaffirmed

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About Acuité Ratings & Research

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