Shakti Polyweave Private Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	48.91 (reduced from Rs.67.66 crore)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	69.60	**CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive/ A Two)**	**Reaffirmed**
Short-term Bank Facilities	7.34	**CARE A2 (A Two)**	**Reaffirmed**
Total	**125.85 (Rupees One Hundred Twenty-Five Crore and Eighty-Five Lakhs Only)**		

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shakti Polyweave Private Limited (SPPL) continue to derive strength from its experienced promoters, SPPL's long track record of operations in woven fabric manufacturing and established relationship with its overseas customers. The ratings also factor continuous growth in its total operating income with healthy profitability, comfortable debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained by its moderate scale of operations, moderate leverage, susceptibility of its profitability to volatile raw material prices and foreign exchange rates, moderate customer concentration risk and its presence in a fragmented and competitive woven fabric industry which restricts its profitability margin. The ratings also take cognizance of salability risk associated with its recently commissioned large size expansion project.

Outlook: Positive

The 'Positive' outlook on the long-term rating of SPPL reflects the expectation of ramp up in the production and sales volume from its additional capacity which could lead to further growth in scale of operations along with improvement in profitability as well as debt coverage indicators. The outlook may be revised to 'Stable' if the company is unable to realize the envisaged benefits from the capex and there is lower than expected utilization of enhanced capacities.

Rating Sensitivities

Positive Factors:

- Increase in scale of operations with Total Operating Income (TOI) beyond Rs.450 crore through geographical and customer diversification while maintaining PBILDT margin in the range of 16-18% on sustained basis
- Improvement in overall gearing ratio to below 0.50 times on sustained basis while maintaining its operating cycle

Negative Factors:

- Decline in PBILDT margin below 12% on sustained basis
- Deterioration in debt coverage indicators with interest coverage falling below 4 times and total debt/gross cash accruals of more than 4 times on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter: SPPL was promoted by Mr. Hanskumar R. Agarwal along with his father, Mr. Ramakant Bhojnagarwala who is a first generation entrepreneur and has nearly five decades of experience in the textile and polymer industry. He monitors the overall operations of SPPL and plays an active role in managing day-to-day operations. Mr. Hanskumar R. Agarwal is a graduate and has nearly two decades of experience in technical textile industry. He mainly looks after the production function. The promoters are well supported by an experienced and qualified team of professionals. Moreover, promoters have also set-up another company; Shri Jagdamba Polymers Limited (SJPL; rated: CARE

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

BBB+; Positive/ CARE A2) which is also engaged in similar line of operations. Both these companies operate under common management and have business linkages. While SJPL is publicly listed on the stock exchange, SPPL is an unlisted closely-held company.

Established and long track record of operations with diverse industry application of its products: SPPL started its operation in 1997 with manufacturing of plastic woven fabrics and bag and has track record of more than two decades in technical textile industry. SPPL's product portfolio includes polypropylene (PP)/ Polyethylene (PE) woven bags, fabric, Siltfence, Flexible Intermediate Bulk Containers (FIBC), geo-textile, ground cover, nettings, etc. which find application in packaging (storage and transportation of powdered, granulated or bulk products), infrastructure (soil erosion control, earth stabilization and act against biological degradation) and agriculture industry (unwanted weed suppression, soil moisture preservation, erosion control, resistance against attack by bacteria and ground insect). Capacity utilisation of SPPL's installed capacity remained at 90-95% over past two years ended FY20 (FY; refers to period April 1 to March 31).

Established relationship with customers; albeit moderate client concentration: Majority of SPPL's production is exported to countries such as United States of America (USA), United Kingdom (UK), Taiwan, Hong Kong, Spain and some other European and Asian countries. SPPL has been successful in establishing a stable customer base in these countries. However, the revenue concentration from top 10 customers remained moderate at 54% during FY20 (FY19: 51%). Therefore, continuous relationship with existing customers remains crucial from credit perspective. Although, it does not have any long-term agreements in place with its customers, SPPL has been able to secure repeat orders from its customers due to conformity to quality standards and specifications which mitigate the client concentration risk to a certain extent.

Continuous growth in total operating income (TOI) and healthy profitability, comfortable debt coverage indicators and strong return ratio: TOI of SPPL grey by nearly 10% during FY20 on y-o-y basis backed by 10% growth in sales volume coupled with higher trading revenue which was partially offset by decline in average sales realization by 7%. PBILDT margin improved by 159 bps during FY20 over FY19 as the company did not completely pass on benefits of lower raw material prices to customers. Moreover, with higher interest cost and depreciation charge, PAT margin largely remained stable in FY20 over FY19. Further, the return indicators of the company continue to remain strong marked by ROCE and RONW of around 25% and 28% respectively during FY20. Furthermore, the debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain comfortable at 7.94 times (FY19: 7.53 times) and 2.05 years (FY19: 1.90 years) respectively during FY20.
During 9MFY21, TOI of the company grew by 12% over 9MFY20. Moreover, PBILDT margin improved by 274 bps on Y-o-Y basis and continued to remain healthy at 20.73% during 9MFY21. Demand of company's products was less impacted by covid-19 due to varied applications across construction, infrastructure and packing industries.

Key Rating Weaknesses

Moderate scale of operations and moderate leverage: Despite continuous increase in TOI, the scale of operations of the company continue to remain moderate marked by TOI of Rs.379 crore during FY20 and net-worth base of Rs.112 crore as on March 31, 2020.
The capital structure of SPPL continued to remain moderate marked by overall gearing ratio and TOL/ TNW of 0.84 times (PY: 0.81 times) and 0.99 times (PY:1.10 times) respectively as on March 31, 2020. The total debt of SPPL increased from Rs.73.27 crore as on March 31, 2019 to Rs.94.16 crore as on March 31, 2020 mainly due to term debt availed for expansion project and increase in unsecured loans from related parties.

Commissioning of expanded capacities provides opportunity to grow scale of operations; albeit saleability risk persists: During FY20, SPPL has expanded its capacity from 22,000 MTPA to 32,000 MTPA at a cost of Rs.68.10 crore which was funded though term loan of Rs.44.05 crore and balanced through internal accruals. SPPL has started commercial production from the additional facility in Q1FY21. The commissioning of expanded capacity should provide further opportunity to grow its scale of operation. SPPL's products have high export potential considering growing demand from agriculture and infrastructure sectors. SPPL has already established customers in overseas market which limits saleability risk to certain extent. However, early ramp up in production and sales volumes and generation of envisaged returns from the project remains crucial for credit perspective.

Profitability susceptible to raw material price volatility and foreign exchange rate fluctuation: SPPL's main raw material comprises plastic granules, which are crude derivatives. Hence, any sharp change in international crude oil prices and foreign exchange rate impacts raw material pricing for the company. The company normally follows order backed purchase for raw materials thereby insulating profitability from raw material price fluctuation risk to an extent. Further, SPPL generates substantial part of its total income from export (93% of TOI during FY20) which exposes it to the risk associated with forex rates. However, the risk is mitigated partially on account of the natural hedge available in the form of imports of raw material (~ 27% of the total cost of raw material in FY20). Moreover, company avails foreign currency borrowings against its exports which also provides natural hedge. Company also covers forex exposure through forward contracts depending upon the market scenario.

Competitive woven sacks industry and limited bargaining power with large supplier restricts the profitability: The industry is fragmented in nature due to the low entry barriers on account of low initial capital investment and ease of accessibility to technology. This results in increase in competition especially in the domestic market. Moreover, there are limited suppliers of its key raw material (plastic granules) in the domestic market due to the oligopolistic nature of the supply market, which results in limited bargaining power for SPPL. However, in order to partially mitigate the concentration risk, the company also sources the raw material from international suppliers.

Liquidity: Adequate

SPPL's liquidity remains adequate marked by strong current ratio of 2.41 times as on March 31, 2020, largely stable operating cycle of 73 days during FY20 and moderate working capital limit utilization of 30% during past 12 months ended December 2020. Moreover, cash flow from operation stood healthy at Rs.34 crore during FY20. Further, SPPL has relatively low term debt repayment obligation of Rs.14-15 crore per annum during next two years as against growing cash accruals which remained at Rs.46 crore during FY20 which indicate adequate cushion in its debt servicing. SPPL had unencumbered cash and bank balance of Rs.22.54 crore as on March 31, 2020. SPPL's unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Furthermore, SPPL did not avail moratorium on its debt servicing for any of its bank facilities, the option which was available as a Covid-19 relief measure as per RBI's policy, which also indicates its adequate liquidity.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Incorporated in December 1997, SPPL was promoted by Mr. Hanskumar R. Agarwal and his family members. SPPL is engaged in manufacturing of PP/ PE woven fabric, bag and various technical textile products which find its application in packaging, agriculture and infrastructure industries. As on December 31, 2020, SPPL had installed capacity of 32,000 Metric Tons per annum (MTPA) of woven fabrics and bags from its four units situated at Dholka, Dist: Ahmedabad. Moreover, as on December 31, 2020, SPPL had windmill capacity of 3.6 MW.

(Rs. Crore)

Brief Financials of SPPL	FY19 (A)	FY20 (A)
Total operating income (TOI)	343.93	379.29
PBILDT	51.21	62.50
PAT	26.15	28.00
Overall Gearing (times)	0.81	0.84
Interest coverage (times)	7.53	7.94

A: Audited

During 9MFY21, as per un-audited results, SPPL reported a net profit of Rs.33.66 crore on TOI of Rs.323.08 crore as against a net profit of Rs.21.69 crore on TOI of Rs.288.78 crore during 9MFY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	69.60	CARE BBB+; Positive / CARE A2
Fund-based - LT-Term Loan	-	-	June 2026	48.91	CARE BBB+; Positive
Non-fund-based - ST-Credit Exposure Limit	-	-	-	7.34	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	69.60	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Positive / CARE A2 (25-Mar-20)	1)CARE BBB+; Positive / CARE A2 (25-Feb-19)	1)CARE BBB+; Stable / CARE A2 (10-Jan-18)
2.	Fund-based - LT-Term Loan	LT	48.91	CARE BBB+; Positive	-	1)CARE BBB+; Positive (25-Mar-20)	1)CARE BBB+; Positive (25-Feb-19)	1)CARE BBB+; Stable (10-Jan-18)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	7.34	CARE A2	-	1)CARE A2 (25-Mar-20)	1)CARE A2 (25-Feb-19)	1)CARE A2 (10-Jan-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based/Non-fund-based-LT/ST	Simple
3.	Non-fund-based - ST-Credit Exposure Limit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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