

Shakti Polyweave Private Limited

January 10, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	40.89	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Short term Bank Facilities	7.00	CARE A2 (A Two)	Assigned
Long term/Short term Bank Facilities	52.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Assigned
Total	99.89 (Rupees Ninety Nine Crore and Eighty Nine Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shakti Polyweave Private Limited (SPPL) derive strength from its experienced promoters, SPPL's long standing track record of operation in woven fabric manufacturing and established relationship with its well diversified overseas customers. The ratings also take into account its financial risk profile marked by consistent growth in total operating income, improving profitability and debt coverage indicators.

The ratings, however, are constrained by its modest scale of operations with moderate leverage, susceptibility of its profitability to volatile raw material prices and foreign exchange rates and its presence in the highly fragmented and competitive woven fabric industry which restricts its profitability margin.

The ability of SPPL to maintain its growth in total operating income while maintaining its profitability in the light of volatile raw material prices and effective management of its working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter: SPPL is promoted by Mr. Hanskumar R. Agarwal along with his father, Mr. Ramakant Bhojnagarwalla 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 the woven fabrics and bags, and geo-textile segment. He mainly looks after the production aspects of the business. The promoters have also promoted the other company; Shri Jagdamba Polymers Limited (SJPL; rated: CARE BBB; Stable and CARE A3+) which is also engaged in similar line of operations. Both these companies operate under the common management and have business linkages.

Established track record of operations with diverse industry application: SPPL started its operation in December 1997, with manufacturing of plastic woven fabrics and bags and has nearly 20 years of operational track record in the woven fabrics and bags industry. SPPL's product portfolio includes polypropylene (PP)/ Polyethylene (PE) woven bags, fabric, Siltfence, Flexible Intermediate Bulk Containers (FIBC) and geo-textile products. "Siltfence" is a woven fabric used in construction industry in United States of America (USA) and Europe. Geo-textile products find its applications in soil, rock, earth, ground covers etc to strengthen the soil.

Established relationship with well diversified customers: SPPL's majority of the production is exported to countries such as USA United Kingdom (UK), Taiwan, Hong Kong, Spain and other European countries. SPPL has been successful in establishing a stable customer base in these countries. 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 risk to a certain extent.

Consistent growth in total income along with improving profitability and debt coverage indicators: The total operating income of the company reported healthy Compounded Annual Growth Rate (CAGR) of 20% during FY15-FY17. It grew

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

further nearly 22% during FY17 over FY16 on the back of growth in production and sales volume. The PBILDT margin too improved during FY17 over FY16 due to saving in raw material cost. With growth in total operating income and improvement in profitability, the debt coverage indicators i.e. interest coverage and total debt to GCA too have improved over past three years ended FY17 and remained comfortable.

Key Rating Weaknesses

Modest scale of operation with moderate leverage: Despite consistent increase in total operating income, the scale of operation of the company remained modest marked by total operating income of Rs.237 crore during FY17 and networth base of Rs.43 crore as on March 31, 2017. The leverage of the company remained moderate with an overall gearing ratio of 1.55 times as on March 31, 2017 due to relatively high term debt obligation on the back of recently added plant and machineries.

Susceptibility of profits to volatility associated with raw material prices and forex rates: SPPL's main raw material comprises plastic granules, which are crude derivatives. Hence, any change in international crude oil prices and exchange rate impacts raw material pricing for the company. The company follows order backed purchases of raw materials thereby insulating profitability from raw materials price fluctuations risk to an extent.

Further, SPPL generates substantial part of its total income (93% of total operating income during FY17) 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 (~ 32% of the total cost of raw material in FY17) and utilization of foreign currency denominated working capital facilities against its export orders.

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 barrier on account of low initial capital investment and ease of accessibility to technology. This results in increase in the competition especially in the domestic market. 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 a limited bargaining power of SPPL. However, in order to partially mitigate the concentration risk, the company also sources the raw material from international suppliers.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[CARE's Methodology for Factoring Linkages in Ratings](#)
[CARE's methodology for manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in December 1997, SPPL is promoted by Mr. Hanskumar R. Agarwal and his family members. SPPL is engaged in manufacturing of polypropylene (PP)/ Polyethylene (PE) woven sacks & fabric, geo-textile products and various technical textile products which find its application in construction, infrastructure and packing industry. SPPL has its manufacturing facilities situated at Dholka and Simej, near Ahmedabad having an installed capacity for woven fabrics and bags of 22,000 Metric Tons per annum (MTPA) as on March 31, 2017. Moreover, As on March 31, 2017, SPPL has windmill capacity of 3.6 MW.

Brief Financials (Rs. crore)	FY16 (Audited)	FY17 (Audited)
Total operating income	193.29	236.50
PBILDT	24.27	36.47
PAT	9.06	9.15
Overall gearing (times)	1.74	1.55
PBILDT Interest coverage (times)	6.39	5.78

As per 7MFY18 (Prov.), SPPL registered a total operating income of Rs.201.81 crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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Annexure-1: Details of Instruments/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	-	-	December, 2023	52.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	-	40.89	CARE BBB+; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	7.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	52.00	CARE BBB+; Stable / CARE A2	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	40.89	CARE BBB+; Stable	-	-	-	-
3.	Non-fund-based - ST-Credit Exposure Limit	ST	7.00	CARE A2	-	-	-	-

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