Shakti Polyweave Private Limited

February 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	81.72 (enhanced from Rs.40.89 crore)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
Short Term Bank Facilities	11.00 (enhanced from Rs.7.00 crore)	**CARE A2 (A Two)**	**Reaffirmed**
Long term/ Short term Bank Facilities	49.00 (reduced from Rs.52.00 crore)	**CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive / A Two)**	**Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**
Total	**141.72 (Rupees One Hundred Forty One Crore and Seventy Two Lakh only)**		

Details of instruments/facilities 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 standing track record of operation in woven fabric manufacturing and established relationship with its overseas customers. The ratings also take into account its financial risk profile marked by consistent growth in total operating income along with improvement in profitability, debt coverage indicators and return ratios during FY18 (refers to period April 1 to March 31) and 9MFY19 (UA). The ratings also favorably take into account improvement in leverage ratios on the back of extinguishment of certain long term liability apart from receipt of part insurance claim during 9MFY19.

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, stabilization and salability risk associated with on-going large size capacity expansion project, customer concentration risk and its presence in 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.

Outlook: Positive

The positive outlook reflects the expectation of successful commercialization of capacity expansion project which could lead to further growth in scale of operations, enhance its profitability as well as improve its debt coverage indicators. The outlook may be revised to 'Stable' if the company is unable to realize the envisaged benefits from the capex and lower than expected utilization of enhanced capacities.

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 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 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 A2) 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 more than 2 decades 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

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

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 SPPL grew at a Compounded Annual Growth Rate of 25% during FY13-FY18 and it grew by 27% during FY18 over FY17. The growth in total operating income of the company was largely driven by improving capacity utilisation and increasing average sales realization of its products. The capacity utilisation of SJPL's products improved to 87% during FY18 from 61% during FY16. PBILDT margin improved significantly during FY18 by 177 bps over FY17 on the back of favourable sales mix apart from improvement in average sales realization and improved operational efficiency. PAT margin also improved in line with PBIDLT margin along with lower interest and depreciation cost. The interest coverage and total debt to GCA ratio also improved during FY18 due to lower interest cost and higher profitability and strong cash accruals. Moreover, the return indicators of the company also improved and remained strong marked by ROCE and RONW of around 31% and 38% respectively during FY18.

Extinguishment of long term liability: SPPL was envisaging a capex and had entered into a memorandum of under-standing with one partner from whom SPPL had received capital advances of Rs.9.98 crore. During 9MFY19, that partner withdrew from project and as per the terms of the agreement, SPPL has forfeited the capital advance. SPPL has adjusted Rs.9.98 crore against gross block of assets during 9MFY19. With reduction in long term liability, TOL/ TNW ratio has improved significantly from 1.33 times as on March 31, 2018 to 0.92 times as on December 31, 2018.

Liquidity Analysis: The liquidity profile of the company is comfortable with current ratio of 1.93 times as on March 31, 2018 and average fund based working capital utilizations at 52% for past trailing 12 months ended October 2018. Moreover, liquidity is supported by healthy cash accruals and need based support from promoters. SPPL had unencumbered cash and bank balance of Rs.1.83 crore as on March 31, 2018. Further, during 9MFY19, SPPL has received insurance claim of Rs.7.42 crore which also supports liquidity.

Key Rating Weaknesses

Modest scale of operation with moderate leverage and customer concentration risk: Despite consistent increase in total operating income, the scale of operation of the company remained modest marked by total operating income of Rs.299 crore during FY18 and networth base of Rs.67 crore as on March 31, 2018. Moreover, revenue concentration from top 5 customers continues to remain high at 76% of total operating income during FY18. Therefore, continuous relationship with existing customers remains crucial for credit perspective.

The leverage of the company marked by an overall gearing ratio improved from 1.52 times as on March 31, 2017 to 1.11 times as on March 31, 2018 backed by accretion of profit to the reserves. However, leverage of SPPL continues to remain moderate backed by relatively modest networth base. Further, in light of on-going debt funded capacity expansion project, the leverage is expected to remain moderate in medium term.

Large size debt funded capex: Considering the already optimum utilization of existing manufacturing capacities and growing demand of its products, SPPL is implementing a large size expansion project with a total cost of Rs.72 crore *(approximately 1.14 times of tangible net-worth as on March 31, 2018)* which is being funded through the term debt of Rs.50 crore, and balance through the internal accruals. Major portion of capacity expansion pertains to production of technical textiles products both existing as well as newly developed products with varied application to infrastructure and agriculture industries. The expansion is expected to be completed by April 2019. Moreover, as on December 31, 2018, SPPL has already incurred approximately Rs.20.00 crore towards the capex. SSPL's products i.e. woven sacks and geo-textile products have high export potential considering growing demand from infrastructure and agriculture sector. SPPL has already established customers in overseas market which limits saleability risk to certain extent. However, optimum utilisation of new capacities and early ramp up in production and sales volumes remains to be seen.

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 normally 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 from export (94% of total operating income during FY18) 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 (~ 26% of the total cost of raw material in FY18) 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. 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 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
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

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 agriculture, 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, 2018. Moreover, As on March 31, 2018, SPPL has windmill capacity of 3.6 MW.

Brief Financials (Rs. crore)	FY17 (Aud.)	FY18 (Aud.)
Total operating income	236.50	299.01
PBILDT	36.47	51.40
PAT	9.15	20.07
Overall gearing (times)	1.52	1.11
Interest coverage (times)	5.78	9.23

During 9MFY19, as per un-audited results, SPPL reported a net profit of Rs.24.78 crore (including insurance claim receipt of Rs.7.42 crore) on total operating income of Rs.245.85 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.*

Analyst Contact:
Name: Mr. Krunal Modi
Tel: 079-40265614
Mobile: +91-8511190084
Email: krunal.modi@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	49.00	CARE BBB+; Positive/ CARE A2
Fund-based - LT-Term Loan	-	-	September 2025	81.72	CARE BBB+; Positive
Non-fund-based - ST-Credit Exposure Limit	-	-	-	11.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ ST	49.00	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (10-Jan-18)	-	-
2.	Fund-based - LT-Term Loan	LT	81.72	CARE BBB+; Positive	-	1)CARE BBB+; Stable (10-Jan-18)	-	-
3.	Non-fund-based - ST-Credit Exposure Limit	ST	11.00	CARE A2	-	1)CARE A2 (10-Jan-18)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +9185111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691