Shakti Polyweave Private Limited

March 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	67.66 (reduced from Rs.81.72 crore)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	69.60 (enhanced from Rs.49.00 crore)	**CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive/ A Two)**	**Reaffirmed**
Short-term Bank Facilities	7.34 (reduced from Rs.11.00 crore)	**CARE A2 (A Two)**	**Reaffirmed**
Total	**144.60 (Rupees One Hundred Forty Four Crore and Sixty 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) 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 moderation in its operating profitability (i.e. PBILDT) during FY19 (FY; refers to period April 1 to March 31) and some delay in implementation of its brown-field expansion project due to late delivery of imported machineries.

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

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

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 (to control soil erosion, 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).

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 51% during FY19 (improved from 60% in FY18). 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 grew at a Compounded Annual Growth Rate (CAGR) of 24% during FY14-FY19 and it grew by 15% during FY19 over FY18 on the back of growth in sales volume and higher average sales realization. Moreover, installed capacity of the company remained optimally utilized at 94% during FY19 (FY18: 87%). PBILDT margin which has improved over past three years ended FY18, declined by 230 bps in FY19 over FY18 due to inability to completely pass on increase in raw material prices to customers. Despite moderation in PBILDT margin in FY19, it continued to stand healthy at around 15%. Moreover, despite moderation in PBILDT margin, the PAT margin improved by 89 bps during FY19 due to non-operating income in form of receipt of insurance claim of around Rs.6.37 crore. Further, the return indicators of the company continue to remain strong marked by ROCE and RONW of around 30% and 34% respectively during FY19. Furthermore, the debt coverage indicators marked by interest coverage and total debt to GCA continue to remain comfortable at 7.53 times (FY18: 9.23 times) and 1.90 years (FY18: 2.07 years) respectively during FY19.

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 total operating income of Rs.344 crore during FY19 and net-worth base of Rs.90 crore as on March 31, 2019.

The overall gearing ratio of SPPL although improved from 1.11 times as on March 31, 2018 to 0.81 times as on March 31, 2019 continued to remain moderate due to its relatively modest net-worth base. Further, in light of its on-going debt funded capacity expansion project, the leverage is expected to remain moderate in medium term.

Large size debt funded brown-field project with time overrun: SPPL is implementing a large size expansion project at a total cost of Rs.68.55 crore which is being funded through term debt of Rs.44.50 crore and balance through internal accruals. Capacity expansion pertains to production of both existing as well as new products with varied application towards infrastructure and agriculture industries. As on January 31, 2020, SPPL had incurred total cost of Rs.63.55 crore which was funded through term loan of Rs.40.79 crore and balance through internal accruals. Earlier, SPPL was expecting to achieve its commercial operations date (COD) by April 2019 however due to delayed delivery of imported machineries, SPPL started commercial production of phase-I in July 2019, and it expects to commence commercial production from full capacity by June 2020. SPPL's 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. With commencement of first phase, the company has achieved a y-o-y growth of 17% in TOI during 9MFY20 with improved profitability margins of around 18% (16% in 9MFY19). Moreover, PBILDT (operating profit) grew by over 30% in 9MFY20 over 9MFY19 backed by growth in TOI along with expansion in margins.

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 purchases of 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 (95% of TOI during FY19) 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 (~ 22% of the total cost of raw material in FY19). 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 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 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 1.79 times as on March 31, 2019, largely stable operating cycle of 66 days during FY19 and moderate working capital limit utilization of 43% during past 12 months ended November 2019. Moreover, cash flow from operation stood healthy at Rs.39.92 crore during FY19. Further, SPPL has relatively low term debt repayment obligation of Rs.10 crore to Rs.15 crore per annum during FY20 to FY21 as against envisaged annual cash accruals of around Rs.50 crore which indicate adequate cushion in its debt servicing. Furthermore, SPPL had unencumbered cash and bank balance of Rs.1.92 crore as on March 31, 2019. Moreover, SPPL's unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

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
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

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 industry. As on March 31, 2019, SPPL had installed capacity of 22,000 Metric Tons per annum (MTPA) of woven fabrics and bags from its three units situated at Dholka, Dist: Ahmedabad. Moreover, as on March 31, 2019, SPPL had windmill capacity of 3.6 MW.

(Rs. Crore)

Brief Financials of SPPL	FY18 (A)	FY19 (A)
Total operating income	299.01	343.93
PBILDT	51.40	51.21
PAT	20.07	26.15
Overall gearing (times)	1.11	0.81
PBILDT Interest coverage (times)	9.23	7.53

A: Audited

- During 9MFY20, as per un-audited results, SPPL reported a PAT of Rs.21.69 crore on total operating income of Rs.288.78 crore as against a PAT of Rs.24.78 crore on total operating income of Rs.245.85 crore during 9MFY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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	-	-	-	69.60	CARE BBB+; Positive / CARE A2
Fund-based - LT-Term Loan	-	-	June 2026	67.66	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based/Non-fund-based-LT/ST	LT/ ST	69.60	CARE BBB+; Positive / CARE A2	-	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	67.66	CARE BBB+; Positive	-	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-Feb-19)	1)CARE A2 (10-Jan-18)	-

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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