

June 20, 2019

SKAPS Industries India Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	120.04	49.92	[ICRA]A- (Stable); Reaffirmed
Fund-based Cash Credit	65.00	30.00 [^]	[ICRA]A- (Stable); Reaffirmed
Non-fund Based Limits	13.19	-	-
Unallocated Limits	-	118.31	[ICRA]A2+; Reaffirmed
Total	198.23	198.23	

*Instrument details are provided in Annexure-1

[^]Cash Credit limits have interchangeable sub-limits of Rs. 30.00 crore of working capital demand loan, Rs. 30.00 crore each of export packing credit in foreign currency & INR, Rs. 30.00 crore of foreign bill Purchase/discounting, Rs. 20.00 crore of letter of credit, Rs. 20.00 crore of buyer's credit and Rs. 20.00 crore of bank guarantee

Rationale

For arriving at the ratings, ICRA has combined the business and financial risk profiles of SKAPS Industries India Pvt. Ltd. (SKAPS) and Anjani Udyog Private Limited (Anjani) as Anjani is a subsidiary of SKAPS (current holding 99.9%) and both entities are involved in related business lines.

The rating reaffirmation continues to reflect the extensive experience of the promoters, the established track record of the SKAPS Group in the geotextiles industry, and the favourable demand outlook for geotextiles products in exports as well as domestic markets owing to its varied applications. The ratings also factor in the Group's (SKAPS and Anjani) healthy financial risk profile, marked by healthy growth in scale of operations in FY2019, a strong net worth base, a comfortable capital structure and robust coverage indicators. The entire bank funding for working capital requirements (~Rs. 58.42 crore as on March 31, 2017) has been replaced by advances from its US-based associate, PBR Inc., which strengthened the capital structure and the coverage indicators of the Group; this arrangement is expected to continue, going forward. ICRA also notes the healthy financial risk profile of PBR Inc. (turnover of US\$ 216.46 million and TD/Net-worth of 0.23 time in CY2018) and its continuous operational and financial support to SKAPS. SKAPS garners most of its revenues from PBR Inc. (contributed ~85% to the total sales in H1FY2019), and has a memorandum of understanding (MoU) in place with it as well, which ensures limited off-take risk.

The ratings, are however, constrained by the vulnerability to raw material prices, as commodity polymers are crude oil derivatives. However, the policy of regular price revision and the incorporation of a price escalation clause in its customer agreements protect its profitability to some extent. Further, the ratings take into account the exposure of profitability to foreign exchange fluctuation risks as significant revenue is derived from exports. Moreover, high capital-intensive business, with regular capex requirements, has kept the return indicators at average levels.

Outlook: Stable

ICRA believes the Group will continue to benefit from the extensive experience of its promoters in the geotextile industry, along with the continued operational and financial support from its US associate. The outlook may be revised to Positive if significant scale up of operations, improvement in profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if there is any material deterioration in profit margins, or if any major debt-funded capital expenditure, or if any change in support structure from group entities limits its financial flexibility.

Key rating drivers

Credit strengths

Extensive experience of promoters – The promoters have extensive experience; and the flagship company of the Group—SKAPS Industries India Private Limited—has an established track record in the geotextile industry spanning more than a decade.

Limited off-take risk with majority of sales made to associate concern – The company derives most of its revenues (~85% of total sales in H1 FY2019) from sales to its US-based associate concern, PBR Inc. SKAPS Industries India Private Limited has an MoU for minimum volume off-take with PBR Inc., which limits its off-take risk. Moreover, SKAPS also gets financial support in the form of advances to meet its working capital requirements. As on March 31, 2019, the advances outstanding from PBR Inc. to SKAPS stood at Rs. 130.18 crore.

Healthy financial risk profile –The operating income of the Group grew at a healthy y-o-y rate of 21% to Rs. 433.16 crore in FY2019 from Rs. 357.36 crore in FY2018, owing to improved realisation of its existing products coupled with increased contribution of the new products, fiberglass and hydrotex, to the revenue mix. The operating profitability also witnessed a y-o-y improvement to 16.29% in FY2019 from 14.66% in FY2018, owing to increased sales of higher value-added products, coupled with inventory gain in an increasing raw material price scenario. The capital structure remained comfortable with a strong net-worth base of Rs. 225.29 crore, low gearing of 0.36 time and TOL/TNW of 1.05 time as on March 31, 2019. The coverage indicators also remained healthy—the interest cover was 14.13 times, Total Debt/OPBDITA was 1.14 and NCA/Debt was 70% as on March 31, 2019 and improved on YoY basis.

Credit challenges

Margins susceptible to volatility in raw material prices - SKAPS remains exposed to the volatility in the prices of its key raw material, polymers, which vary in line with crude oil prices. The same has moderated the operating profitability in FY2018 to 14.66% from 16.14% in FY2017 and improved it again to 16.29% in FY2019.

Moderate return indicators – The capital-intensive operations and consequently the high capex undertaken for maintenance, technology upgradation and capacity enhancement constrain the company's return indicators, as reflected by RoCE at 6.72% in FY2018 and 12.42% in FY2019.

Vulnerability of profitability to foreign currency exchange rate fluctuations - Exports contributed 94% to the total revenue of FY2018 and 83% in FY2019. High export coupled with high dollar denominated customer advances received from its associate concern, PBR Inc. USA, has made the company's profitability vulnerable to foreign currency exchange rate fluctuations, to the extent unhedged, although the same is partly mitigated by the natural hedge provided by the foreign currency denominated debt.

Liquidity position:

The overall liquidity position is comfortable, reflected in healthy accruals against corresponding debt obligations and unencumbered cash and bank balance of Rs. 4.63 crore as on March 31, 2019. The repayment burden is going to ease further in the years ahead as the Group does not have any major debt-funded capital expenditure plans.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of SKAPS Industries India Pvt. Ltd. (SKAPS) and Anjani Udyog Private Limited (Anjani) as Anjani is a subsidiary of SKAPS (current holding 99.9%) and both entities are involved in related lines of business.

About the company:

Skaps Industries India Pvt. Ltd. (SKAPS) was incorporated in 2005 by a first-generation entrepreneur, Mr. Paresh Vyas, who has an experience of more than two decades in the geotextile industry. The company manufactures polypropylene staple fibre (raw material for non-woven geotextiles), woven and non-woven geotextiles. In FY2017, it added new products, namely glass fibre and hydrotex¹, to its product profile by acquiring a green field unit—Anjani Udyog Private Limited (99.9% holding). In FY2017, SKAPS acquired another entity namely Advanced Textiles & Materials Private Limited, also engaged in manufacture of fiberglass. In the current fiscal, the Group has added new monofilament yarn-based products to its portfolio. The Group currently operates from five units—one unit at Moraiya (100% export-oriented unit) near Ahmedabad (Gujarat), three units at Mundra Special Economic Zone and another at Savli, with a total production capacity of 52,920 metric tonnes per annum (MTPA) (excluding capacity for Hydrotex).

Key financial indicators (audited)

	FY2017	FY2018	FY2017	FY2018
	Standalone		Consolidated	
Operating Income (Rs. crore)	337.07	356.73	337.07	357.36
PAT (Rs. crore)	14.65	9.93	13.07	9.43
OPBDIT/ OI (%)	16.27%	14.09%	16.14%	14.66%
RoCE (%)	8.17%	7.15%	7.48%	6.72%
Total Debt/ TNW (times)	0.79	0.40	0.83	0.44
Total Debt/ OPBDIT (times)	2.66	1.56	2.88	1.70
Interest Coverage (times)	7.38	7.25	7.32	7.56

Status of non-cooperation with previous CRA: N/A

Any other information: None

¹ Concrete erosion control and scour protections systems made using highly engineered fabric

Rating history for last three years:

	Instrument	Type	Current Rating (FY2020)		Date & Rating June 2019	Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2018 March 2018	Date & Rating in FY2017 October 2016	Date & Rating in FY2017 October 2016
1	Term Loan	Long Term	49.92	6.44 [^]	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2	Cash Credit	Long Term	30.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
3	Unallocated	Short Term	118.31	-	[ICRA]A2+	-	-	-
4	Working Capital demand loan	Short Term	(30.00)*	-	[ICRA]A2+	-	-	-
5	Export Packing Credit- Foreign currency	Short Term	(30.00)*	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
6	Export Packing Credit- INR	Short Term	(30.00)*	-	[ICRA]A2+	-	-	-
7	Foreign Bill Purchase/Discounting	Short Term	(30.00)*	-	[ICRA]A2+	-	-	-
8	Letter of Credit	Short Term	(20.00)*	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
9	Buyers Credit	Short Term	(20.00)*	-	[ICRA]A2+	-	-	-
10	Bank Guarantee	Short Term	(20.00)*	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2

[^]As on March 31, 2019 *sub-limit of Cash Credit

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016	NA	FY2023	49.92	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	30.00	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	118.31	[ICRA]A2+
NA	Working Capital demand loan	NA	NA	NA	(30.00)*	[ICRA]A2+
NA	EPC – Foreign currency	NA	NA	NA	(30.00)*	[ICRA]A2+
NA	EPC - INR	NA	NA	NA	(30.00)*	[ICRA]A2+
NA	Foreign Bill Purchase/Discounting	NA	NA	NA	(30.00)*	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	(20.00)*	[ICRA]A2+
NA	Buyers Credit	NA	NA	NA	(20.00)*	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	(20.00)*	[ICRA]A2+

*sub-limit of Cash Credit

Source: SKAPS Industries India Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Anjani Udyog Private Limited	99.9%	Full Consolidation

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