September 05, 2022

Anjani Udyog Pvt. Ltd.: Long term ratings upgraded to [ICRA]A(Stable) and short-term ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based – Term Loan	20.00	12.69	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Short-Term Non-Fund Based – Letter of Credit	10.00	10.00	[ICRA]A2+; reaffirmed
Long term/Short term - Unallocated limits	-	7.31	[ICRA]A(Stable) Upgraded from [ICRA]A-(Stale)/ [ICRA]A2+; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of SKAPS Industries India Pvt. Ltd. (SKAPS) and Anjani Udyog Private Limited (Anjani) (referred to as the Group), as Anjani is a subsidiary of SKAPS, which holds a 99.9% stake in the former. Also, both the entities have significant operational and financial linkages.

The ratings upgrade considers a healthy improvement in the Group's business performance in FY2022 and ICRA's expectation that the trend is likely to continue, going forward. The Group's revenue grew by 69% to Rs. 765.86 crore in FY2022 from Rs. 454.17 crore in FY2021. The increase in sales was mainly driven by a pick-up in revenue from the glass fibre segment and recovery in demand for the geotextile business along with higher realisations of all the products.

The ratings reflect a healthy financial risk profile, marked by a strong net worth base, a comfortable capital structure and robust debt coverage indicators. ICRA also notes the healthy financial risk profile of PBR Inc.- an associate concern (turnover of US$ 305.02 million and TD/net worth of 0.14 times in CY2021) - and its continuous operational and financial support to SKAPS. SKAPS garners a large chunk of its revenues from PBR Inc. (contributed ~58% to the total sales in FY2021) and has a memorandum of understanding (MoU) with it as well, which ensures limited offtake risk.

The ratings continue to take into account the extensive experience of the promoters and the established track record of the SKAPS Group in the geotextile industry.

The ratings, are however, constrained by the high customer concertation risk and intense competition in both the geotextile and glass fibre segments. Moreover, the profitability remains susceptible to raw material prices. Nevertheless, the policy of regular price revision and the incorporation of a price escalation clause in the customer agreements protect its profitability to some extent. Further, the profitability is exposed to foreign exchange fluctuation risks as significant revenue is derived from exports. Moreover, the high capital-intensive business, with regular capex requirements, has kept the return indicators at average levels in the past.

The Stable outlook on the rating reflects ICRA's expectation that the Group will continue to maintain its credit profile, backed by expected sustained revenue growth, and healthy debt coverage indicators and liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of management - The promoters have extensive experience and the company has an established track record in the geotextile industry spanning more than a decade. The promoters of the company are also associated with a US-based entity, PBR Inc., which had a turnover of US$ 305 million in CY2021. It is one of the leading players in the fabrication of geosynthetic and non-woven drainage products, serving about 70-80 countries across the globe.

Established and reputed customer profile - The Group derives a large chunk of its revenues (~58% and 65% of total sales in FY2021 and FY2022, respectively) from sales to its US-based associate concern, PBR Inc. SKAPS has an MoU for a minimum volume offtake with PBR Inc., which limits its offtake risk. Notwithstanding this, the contribution of PBR Inc. to the total sales has declined in the last two fiscals compared to the ~80-85% levels till FY2019 due to increasing contribution of the glass fibre segment, whose products are majorly sold in the domestic market. Moreover, SKAPS also gets financial support in the form of advances from PBR Inc. to meet its working capital requirements. As on March 31, 2022 (provisional financials), the advances outstanding from PBR Inc. to SKAPS stood at Rs. 149.5 crore. SKAPS's customer profile consists of reputed players from the windmill sector/windmill blade assembling units. Over the past couple of years, SKAPS has been able to forge a strong relationship with these clients that has resulted in repeat orders.

Healthy scale-up of operations - The Group's consolidated revenue increased by ~69% to Rs.765.86 crore in FY2022 from Rs. 454.17 crore in FY2021. The increase in sales was mainly driven by a ramp-up in the glass fibre segment's revenue to Rs. 217.33 crore in FY2022 from Rs. 128.87 crore in FY2021 and a sharp recovery in demand for geotextiles (from Rs. 272.99 crore in FY2021 to Rs. 489.04 crore in FY2022. The revenue growth was also partially supported by higher realisations of all the products amid increase in raw material prices. Going forward, the Group's revenue is expected to grow at 7-10% on a YoY basis.

Healthy financial risk profile - The Group's capital structure remained comfortable with a strong net worth base of Rs. 350 crore. With limited external debt, the gearing was comfortable at 0.29 times in FY2022 (improved from 0.56 times in FY2021) and TOL/TNW at 1.00 times as on March 31, 2022. Also, the coverage indicators of the Group remain robust — the interest coverage was ~28 times and total debt/OPBDITA was 1.04 times in FY2022. The ROCE improved to 20.41% in FY2022 from. 14.21% in FY2021, aided by improvement in profits.

Credit challenges

Margins susceptible to volatility in raw material prices and foreign currency exchange rate fluctuations - SKAPS remains exposed to the volatility in the prices of its key raw material, polymers, which vary in line with crude oil prices. The Group's operating profit margins moderated in FY2021 to 15.28% in FY2021 from 16.53% in FY2020. The margins further declined to 12.99% in FY2022 due to high raw material and shipping freight costs. Nevertheless, at absolute levels, the operating profit increased by 43% to Rs. 58.39 Crore in FY2022, driven by increase in scale.

Exports contributed ~70% to the total revenue of FY2022. High exports, coupled with high dollar-denominated customer advances received from its associate concern, PBR Inc. US, have made the company's profitability vulnerable to foreign currency exchange rate fluctuations, to the extent unhedged.

High competition in glass fibre business - The margins in the glass fibre industry remains exposed to the high competition with presence of several players. The industry faces competition mainly from the imported glass fibre products that keeps the margins under check.

Liquidity position: Adequate

The Group's liquidity position is adequate, marked by healthy cash accruals against moderate debt repayment obligations, and free cash and bank balance of ~Rs. 13.70 crore as on March 31, 2022. The repayment burden is going to ease in the years ahead as the Group does not have any major debt-funded capital expenditure plans. Besides, the company has cushion in working capital bank lines, with an average utilisation of ~7% over the past 12 months.

Rating sensitivities

Positive factors – The ratings may be upgraded in case of a sustained increase in scale and profitability along with improvement in liquidity position.

Negative factors – The ratings could be downgraded if a substantial decline in the scale of operations or profitability deteriorates the key credit metrics. Any sizeable capex or increase in working capital cycle, adversely impacting the liquidity profile or weakening in the credit profile of the key customer and Group company - PBR Inc, may also put downward pressure on the ratings. A specific credit metric leading to a rating downgrade will include TD/OPBDITA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials 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 the entities have significant operational and financial linkages.

About the company

Anjani Udyog Pvt. Ltd., a green field unit, was acquired by Skaps Industries India Pvt. Ltd. (99.99% holding) in FY2017. It manufactures glass fibre and hydrotex1 for SKAPS on a job-work basis.

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 greenfield unit—Anjani Udyog Private Limited (99.9% holding). Anjani manufactures glass fibre products and hydrotex for SKAPS on a job-work basis. In FY2017, SKAPS acquired another entity, named Advanced Textiles & Materials Private Limited, also engaged in the manufacture of fibre glass. The Group also added monofilament yarn-based products to its portfolio in the recent past. 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.

Key financial indicators

Standalone	FY2020	FY2021	FY2022*
Operating income (Rs. crore)	30.81	35.51	64.07
PAT (Rs. crore)	2.18	0.30	3.20
OPBDIT/OI (%)	7.06%	0.85%	5.00%
PAT/OI (%)	(11.01%)	(20.49%)	1.79%
Total outside liabilities/Tangible net worth (times)	4.25	9.45	10.34
Total debt/OPBDIT (times)	26.08	244.33	34.29
Interest coverage (times)	0.81	0.10	2.73

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Consolidated	FY2020	FY2021	FY2022*
Operating income (Rs. crore)	387.87	464.01	803.48
PAT (Rs. crore)	25.03	41.07	66.45
OPBDIT/OI (%)	15.36%	14.89%	11.16%
PAT/OI (%)	6.45%	8.85%	8.27%
Total outside liabilities/Tangible net worth (times)	0.65	1.15	1.00
Total debt/OPBDIT (times)	0.83	1.73	1.53
Interest coverage (times)	18.45	30.39	39.46

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Estimated*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 5, 2022	Oct 07, 2021	Apr 07, 2020	Jun 20, 2019
1	Term Loan	Long-term	12.69	12.69	[ICRA]A(Stable)	[ICRA]A- (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(SO) (Stable)
2	Letter of Credit	Short-term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+ (CE)	[ICRA]A2+ (SO)
3	Unallocated limits	Long-term/Short-term	7.31	-	[ICRA]A(Stable) [ICRA]A2+	-	-	-

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund Based – Term Loan	Simple
Short-Term Non-Fund Based – Letter of Credit	Very Simple
Long term/Short term - Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2019	NA	FY2025	12.69	[ICRA]A(Stable)
NA	Letter of Credit	NA	NA	NA	10.00	[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	7.31	[ICRA]A(Stable)/ [ICRA]A2+

Source: Company; Note: Amount in Rs. Crore

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidated Approach
SKAPS Industries India Pvt. Ltd.	-	Full Consolidation

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 79 4027 1528
Sanket.thakkar@icraindia.com

Preet Ludhwani
+91 79 4027 1542
Preet.ludhwani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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