

SKY INDUSTRIES LIMITED



CIN No.: L17120MH1989PLC052645

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29 August, 2019

The Manager
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
BSE Code: 526479

Subject : Re-affirmation of Credit Rating by CRISIL

Dear Sir,

This is to inform you that the CRISIL has on August 28, 2019 re-affirmed the Credit Rating of Sky Industries Limited ("the Company") as follows:

Total Bank Loan Facilities Rated	Rs. 13.5 Crore
Long Term Rating	CRISIL BB+/ Stable (Re-affirmed)
Short Term Rating	CRISIL A4+ (Re-affirmed)

The letter received from CRISIL (as updated on the website of CRISIL) is attached herewith.

Kindly acknowledge and take the same on record.

Thanking you,

For Sky Industries Ltd


Arushi Singhal
Company Secretary



Rating Rationale

August 28, 2019 | Mumbai

Sky Industries Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.13.5 Crore
Long Term Rating	CRISIL BB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BB+/Stable/CRISIL A4+' ratings on the bank facilities of Sky Industries Limited (SIL).

The ratings continue to reflect SIL's established market position in the hook & loop industry and its above-average financial risk profile. These strengths are partially offset by the company's small scale of operations in a highly fragmented industry and moderate & fluctuating profitability.

Key Rating Drivers & Detailed Description**Strengths:**

* **Established market position:** The company's market position is backed by a strong track record, more than 500 active customers, and direct sales to 90% of the clients. The promoters' experience of around three decades, understanding of the local market dynamics, and established relationships with suppliers and customers should continue to support the business risk profile. Key customers have been associated with the company for 10-15 years, ensuring stable demand for products. As it supplies to a wide range of industries - including footwear, automotive, and aviation - dependence on a single sector is low.

* **Above-average financial risk profile:** The financial risk profile is backed by moderate networth of Rs 20.64 crore and healthy total outside liabilities to adjusted networth ratio of 1.06 times as on March 31, 2019. Debt protection metrics are strong, indicated by interest coverage of 4.83 times and net cash accrual to adjusted networth ratio of 0.26 time in fiscal 2019. The financial risk profile is expected to remain above average over the medium term backed by moderate accruals, absence of any significant debt funded capex plan and consistently managed working capital cycle

Weakness:

* **Modest scale of operations:** During the four fiscals ended March 31, 2019, revenue ranged from Rs 48-58 crore. The growth in revenue is constrained by the fragmentation in the industry with a large unorganised sector, leading to smaller market size for manufacturers of premium, high-quality fasteners and low export revenue. The overseas markets are highly competitive, with large supply coming from China. Revenue is likely to remain modest over the medium term

* **Moderate & fluctuating profitability:** SIL's operating profitability remained moderate, in the range of around 8.9-11.8 per cent over the past three years ending March 31, 2019 primarily on account of change from trading to manufacturing operations and fluctuation in prices of raw materials. The operating margins declined to 8.9 per cent in fiscal 2019 due to increased fixed expenses owing to full-fledged manufacturing operations and also due to decline in forex gains. CRISIL expects that the operating profitability would continue to remain range of 8-10 percent over the medium term and would be a key rating sensitivity factor.

Liquidity: Adequate

SIL's adequate liquidity is reflected in sufficient cash accrual to meet debt obligation, infusion of equity by the promoters, and moderate bank limit utilisation and current ratio. However, the liquidity is constrained by low unencumbered cash and bank balance. The company generated cash accrual of Rs 3 crore in fiscal 2019 against term debt obligation of Rs 0.17 crore in fiscal 2019. Cash accrual is expected at Rs 3-3.5 crore per fiscal over the medium term, against annual term debt obligation of Rs 0.31-0.45 crore. No major debt-funded capex is planned over the medium term. The promoters will infuse equity of Rs 2 crore over fiscals 2020 and 2021 for incremental business requirements. Bank limit utilisation was moderate, averaging 89% over the 12 months through April 2019. Current ratio is estimated at 1.38 times and unencumbered cash and bank balance at Rs 0.06 crore as on March 31, 2019.

Outlook: Stable

CRISIL believes SIL's business risk profile will benefit over the medium term from the extensive experience of the promoters and established relationships with customers.

Rating Sensitivity Factor**Upward Factor**

* Improvement in revenue along with improved sustained margins above 11%

* Improved working capital cycle.

Downward Factor

- * Operating margins falling below 8%
- * Steep decline in revenues
- * Larger than expected debt funded capex.

About the Company

Incorporated in 1989, SIL manufactures hook and loop fasteners, knitted elastics, and woven elastics, which it sells under the Wonder and Magic brands. It also deals in value-added products such as velvet tapes and fibre glass insect screens. Its manufacturing facility is in Navi Mumbai. The company is managed by the Shah family.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	58	53
Profit After Tax (PAT)	Rs crore	1.7	1.8
PAT Margin	%	2.9	3.4
Adjusted debt/adjusted networkth	Times	0.56	0.58
Interest coverage	Times	4.83	4.43

Status of non cooperation with previous CRA:

SIL has not cooperated with Credit Analysis & Research Ltd. which has classified it as issuer not cooperative vide release dated March 29, 2019. The reason provided by Brickwork Ratings India Private Limited is non-furnishing of information for monitoring of ratings. However SIL and subsequently withdrawn ratings with Credit Analysis & Research Ltd. dated April 03, 2019.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Overdraft	NA	NA	NA	8.5	CRISIL BB+/Stable
NA	Letter of Credit	NA	NA	NA	5	CRISIL A4+

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	8.50	CRISIL BB+/Stable			30-05-18	CRISIL BB+/Stable	28-02-17	CRISIL BB/Stable		--	--
Non Fund-based Bank Facilities	LT/ST	5.00	CRISIL A4+			30-05-18	CRISIL A4+	28-02-17	CRISIL A4+		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Letter of Credit	5	CRISIL A4+	Letter of Credit	5	CRISIL A4+
Overdraft	8.5	CRISIL BB+/Stable	Overdraft	8.5	CRISIL BB+/Stable
Total	13.5	--	Total	13.5	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings](#)

[The Rating Process](#)

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