

## Rating Advisory

April 11, 2023 | Mumbai

### Sky Industries Limited

**Update as on April 11, 2023**

This rating advisory is provided in relation to the rating of Sky Industries Limited

The key rating sensitivity factors for the rating include:

**Upward factors:**

- Sustained improvement in revenue and profitability strengthening net cash accrual to around Rs 4-5 crore
- Sustained working cycle and stable financial risk profile on the back of stable capital structure debt protection metrics and liquidity profile

**Downward factors:**

- Decline in operating margin and subdued revenue growth weakening net cash accrual to below Rs 2.5 crore over the medium term
- Stretch in working capital cycle or large debt funded capex or stress on liquidity affecting financial risk profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Sky Industries Limited (SIL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, [https://www.crisil.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf](https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf))

If SIL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circular SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2023/6 dt January 06, 2023 issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

**About the Company**

Incorporated in 1989, SIL manufactures Hook and Loop Tape Fasteners & other value added products, Velvet Tape, Webbing, etc. The Company sells its products under various brands, prominent among them being Sky-Magic, Sky-Walker, Sky-Magna, Sky-Wonder etc. The Company also deals in Fibre Glass Insect Screens and other products. The Company has its manufacturing facilities in Navi Mumbai and Bhiwandi.

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## Rating Rationale

January 21, 2022 | Mumbai

### Sky Industries Limited

*Rating outlook revised to 'Positive', Ratings reaffirmed; Rated amount enhanced*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.18.3 Crore (Enhanced from Rs.15.3 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL BB+/Positive (Outlook revised from 'Stable'; rating reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A4+ (Reaffirmed)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has revised its outlook on the long term bank facilities of Sky Industries Limited (SIL) to **'Positive'** from **'Stable'** while reaffirming the rating at **'CRISIL BB+'**. The short term rating has been reaffirmed at **'CRISIL A4+'**.

The revision in outlook is driven by the expected improvement in the scale of operations and sustenance of improved profitability strengthening the business risk profile. Revenue recovered sharply during first half of fiscal 2022, after a subdued pandemic impacted fiscal 2021, to Rs 34.8 crores, registering 93.6% growth year-on-year. Overall revenue is expected to register growth of 15-20% from pre pandemic levels in fiscal 2022. Operating margins have improved to around 9.7% in fiscal 2021 from 7.6% a year before, despite pandemic related disruptions and likely to be sustained over medium term.

The ratings continue to reflect the company's established market position in the hook and loop industry, and above-average financial risk profile backed by strong debt protection metrics. These strengths are partially offset by the company's small scale of operations in a highly fragmented industry and modest and fluctuating profitability.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Established market position:** SIL'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 local market dynamics, and established relationships with suppliers and customers should continue to support business risk profile. Key customers have been associated with the company for 10-15 years, ensuring stable demand for products. As SIL supplies to a wide range of industries—including footwear, automotive, and aviation—dependence on a single sector is low.
- **Above-average financial risk profile:** Networth was moderate at Rs.25.68 crore and total outside liabilities to adjusted networth ratio healthy at 0.94 times, as on March 31, 2021. Debt protection metrics were strong, with interest coverage and net cash accrual to adjusted debt ratios of 4.50 times and 0.23 times, respectively, in fiscal 2021. Financial risk profile is expected to remain stable over the medium term backed by moderate accrual, absence of any significant debt-funded capital expenditure (capex) and consistently managed working capital cycle.

##### Weaknesses:

- **Moderate scale of operations:** During the five fiscals through March 31, 2021, revenue ranged from Rs 48-59.3 crore. Scale up in revenue is constrained by intense competition from a large unorganised sector, leading to smaller market size for manufacturers of premium, high-quality fasteners and low export revenue. The international market is also highly competitive, with large supply coming from China. While there has been above average growth in current fiscal and revenue is expected to further grow over medium term, overall scale of operations are expected to remain moderate given the industry dynamics.



<b>Fund Based Facilities</b>	LT	10.3	CRISIL BB+/Positive	--	--	07-12-20	CRISIL BB+/Stable	28-08-19	CRISIL BB+/Stable	CRISIL BB+/Stable
			--	--	--	10-11-20	CRISIL BB+/Stable		--	--
<b>Non-Fund Based Facilities</b>	ST	8.0	CRISIL A4+	--	--	07-12-20	CRISIL A4+	28-08-19	CRISIL A4+	CRISIL A4+
			--	--	--	10-11-20	CRISIL A4+		--	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	8.5	Kotak Mahindra Bank Limited	CRISIL BB+/Positive
Letter of Credit	5	Kotak Mahindra Bank Limited	CRISIL A4+
Letter of Credit	3	Kotak Mahindra Bank Limited	CRISIL A4+
Working Capital Term Loan	1.8	Kotak Mahindra Bank Limited	CRISIL BB+/Positive

This Annexure has been updated on 21-Jan-2022 in line with the lender-wise facility details as on 21-Jan-2022 received from the rated entity.

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
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