November 04, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	**13.00**	**SMERA B+/Stable (Upgraded from SMERA B-/Stable)**
Letter of Credit	**8.43**	**SMERA A4 (Reaffirmed)**

SMERA has upgraded the long-term rating on the Rs.13.00 crore bank facility of Formulated Polymers Limited (FPL) to **'SMERA B+' (read as SMERA B plus)** from 'SMERA B-'(read as SMERA B minus). The outlook is '**Stable**'. Further, SMERA has also reaffirmed the short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs. 8.50 crore bank facility.

The upgrade reflects improvement on account of favourable raw material prices with healthy cash accruals. The ratings continue to benefit from the company's established operations, experienced management, in-house research and development facility and a diversified customer base. However, the rating strengths are partially offset by muted revenue growth. Also, the company's profit margins are susceptible to forex fluctuation risk in the absence of adequate hedging mechanism.

Update

FPL's operating profit margin has improved from 6.38 per cent in FY2011–12 (refers to financial year, April 01 to March 31) to 8.95 per cent in FY2014-15 on account of polymer price advantage that contributes around 77 percent to the cost of production. The company's cash accruals have improved from Rs.1.82 crore in FY2011-12 to Rs.2.35 crore in FY2014-15. The company will benefit from its experienced management. Mr. Venkateswaran Sekar and Mr. Narayanasamy Mohan, Directors, have around two decades of experience in the company's line of business. Also, the company has a diversified customer profile in different industries i.e automobile, electrical, textile and FMCG.

The ratings continue to remain constrained by the company's muted revenue growth with CAGR of 3 percent in the last four years. FPL's profit margins are highly susceptible to forex fluctuation risk in the absence of adequate hedging mechanism.

Outlook: Stable

SMERA believes FPL will maintain a stable business risk profile over the medium term on account of established operations and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher-than-expected revenue growth with sustainable profit margins. The outlook may be revised to 'Negative' in case of decline in the company's cash accruals or deterioration in the financial risk profile.

About the Company

FPL, incorporated in 1991, is a Chennai-based company engaged in the manufacture of plastic components. The company has long term agreement with Eurostar Engineering Plastics (a France-based entity) for manufacture of flame retardant polyamide resins.

For FY2014–15, FPL reported PAT (profit after tax) of Rs.0.92 crore on operating income of Rs.56.73 crore as compared with net loss of Rs.0.33 crore on operating income of Rs.46.56 crore in the previous year. The company's net worth stood at Rs.9.02 crore as on March 31, 2015, as compared with Rs.8.24 crore a year earlier.

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