

Press Release

Tridev Resins (India) Private Limited

May 07, 2019



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs. 8.80 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- / Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 7.20 crore bank facilities of Tridev Resins (India) Private Limited (TRPL). The outlook is '**Stable**'.

Further, Acuité has assigned short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.1.60 crore bank facilities of TRPL.

The rating downgrade reflects sharp decline in the profitability and volatile revenues in the past. The company's profitability has dropped significantly from above 10 per cent in FY2017 to 3.3 per cent in FY2018, although expected to improve in FY2019. Also, the revenues are volatile as revenues dropped to Rs.21.5 crore in FY2017 from Rs.34.7 crore in FY2016, though recovered in FY2018 to about Rs.34.00 crore. Further, the rating also factors in increasing gross current assets (GCA) to about 138 days in FY2018 against 78 days in FY2016. However, the rating factors in experienced management and healthy financial risk profile.

Mumbai-based, TRPL was promoted by Mr. Vinod Oza in 2006. The company is engaged in manufacturing of synthetic resins and acrylic emulsions for printing inks, paints and surface coatings industries. The company has its manufacturing unit located at Vapi (Gujarat) with installed capacity of 3000 MTPA.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of TRPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoter possesses more than a decade of experience in this industry. Before promoting TRPL, the promoter possessed industry experience of a decade. Experienced management supports in diversifying geographic profile for its revenue operations from US, Spain, Bangkok, Hong Kong, among others. Exports contribute to over 70 per cent of its revenues, and it imports about 45-50 per cent of its materials resulting in natural hedge. TRPL's revenues are volatile as they have dropped sharply from Rs.34.7 crore in FY2016 to Rs.21.5 crore in FY2017, however recovered in FY2018 to Rs.34.00 crore. Acuité believes that promoter's experience in the industry and longstanding relationship with the clientele of over a decade are expected to support in improving its business risk profile over the medium term.

- **Healthy financial risk profile**

TRPL's financial risk profile is healthy marked by strong gearing and total outside liabilities to tangible net worth (TOL/TNW), and strong debt protection metrics though partly constrained by moderate net worth. Its gearing (debt-to-equity) and TOL/TNW are strong at 0.04 and 0.55 times as on March 31, 2018 against nil and 0.23 times as on March 31, 2017. The total debt of Rs.0.71 crore as on 31 March, 2018 entirely comprises of working capital borrowing. Further, deterioration in TOL/TNW is majorly on account of increase in trade payables as on 31 March, 2018. The tangible net worth of the company is moderate at Rs.17.73 crore as on March 31, 2018 against Rs.16.78 crore as on March 31, 2017. TRPL has reported cash accruals of Rs.1.29 crore in FY2018, and expects accruals of over Rs.2.00 crore against no repayment obligations. Interest Coverage Ratio (ICR) and net cash accruals to total debt (NCA/TD) of 14.23 and 1.81 times for FY2018 mark the strong coverage indicators of the company. TRPL has no significant capex plans and Acuité believes that with moderate accruals to zero debt obligations, the financial risk profile continues to be healthy over the medium term.

Weaknesses

- **Moderate working capital operations**

TRPL's operations are working capital intensive marked by gross current asset (GCA) of about 138 days in FY2018; an increase from 78 days in FY2016. TRPL procures raw material of about 50 per cent each from domestic market and by way of imports and maintains an inventory of about 3-4 weeks. This leads to moderate utilisation of its capacity at about 50 per cent. It offers credit of about 2-3 months, and ~70 per cent of its revenues are from overseas market. Acuité believes that the operations continue to be at similar levels owing to the time taken for processing, shipment and realisation.

- **Modest scale of operations with declining profitability margins**

TRPL has modest scale of operations marked by operating income of Rs.34.04 crore in FY2018 as against Rs.21.05 crore in FY2017 and Rs.34.67 crore in FY2016. The company has booked revenue of Rs.35.93 crore for FY2019 (Provisional). Intense competition, fluctuating cost of raw materials and rupee-dollar movement have significantly impacted the profitability and also resulted in volatile revenue trend. TRPL's net and operating margins have shown a declining trend with 3.32 and 2.25 percent in FY2018 as against 10.43 and 6.67 percent respectively in FY2017. The decline in profitability margins are primarily on account of increased opex cost from 89.97 percent in FY2017 to 98.05 percent in FY2018. Opex cost is largely contributed by increase in raw material cost and employee cost. Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability are key rating sensitivity factors over the medium term.

- **Susceptible to fluctuations in prices of raw material and forex rates**

The fluctuation in operating margins is marked by fluctuations in raw material prices. The basic raw materials required by TRPL such as monomer are crude oil derivatives whose prices are subject to volatility in line with those of global crude oil prices. Further, TRPL imports part of its raw material from Japan, Korea and USA, and exports its products to countries such as USA and Europe. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates.

Liquidity position:

The company has moderate liquidity marked by moderate net cash accruals as compared to its maturing debt obligations. TRPL generated cash accruals of Rs.1.29-4.60 crore during the last three years through 2017-18, while the maturing debt obligations were nil over the same period. The cash accruals are estimated to remain around Rs.2.0-3.0 crore during 2019-21 with no repayment obligations. TRPL maintains cash and bank balances of Rs.1.29 crore and unencumbered balances in the form of fixed deposits of about Rs.9.21 crore as on March 31, 2018. The current ratio is comfortable at 2.26 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate accruals, no repayment obligations and no major capex over the medium term.

Outlook: Stable

Acuité believes that TRPL's outlook will remain 'Stable' over the medium term from its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	34.04	21.52	34.67
EBITDA	Rs. Cr.	1.13	2.24	6.45
PAT	Rs. Cr.	0.87	1.44	3.97
EBITDA Margin	(%)	3.32	10.43	18.61
PAT Margin	(%)	2.55	6.67	11.44
ROCE	(%)	8.04	12.51	72.84
Total Debt/Tangible Net Worth	Times	0.04	0.00	0.06
PBDIT/Interest	Times	14.23	17.35	34.85
Total Debt/PBDIT	Times	0.38	0.00	0.13
Gross Current Assets (Days)	Days	138	170	78

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Oct-2018	Cash Credit	Long Term	2.00	ACUITE BBB- (Indicative)
	Packing Credit	Short Term	4.50	ACUITE A3 (Indicative)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Indicative)
	Bank Guarantee	Short Term	0.20	ACUITE A3 (Indicative)
	Derivative Exposure	Short Term	0.10	ACUITE A3 (Indicative)
12-May-2017	Cash Credit	Long Term	2.00	ACUITE BBB- (Indicative)
	Packing Credit	Short Term	4.50	ACUITE A3 (Indicative)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Indicative)
	Bank Guarantee	Short Term	0.20	ACUITE A3 (Indicative)
	Derivative Exposure	Short Term	0.10	ACUITE A3 (Indicative)
03-Feb-2016	Cash Credit	Long Term	2.00	ACUITE BBB-/ Stable (Assigned)
	Packing Credit	Short Term	4.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.20	ACUITE A3 (Assigned)

	Derivative Exposure	Short Term	0.10	ACUITE A3 (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/Stable)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Downgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A4+ (Downgraded from ACUITE A3)
Proposed Non Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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