

Press Release

Himalyan Plastics Limited

June 18, 2019



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Downgraded from ACUITE B+ / Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE B+**' (read as **ACUITE B plus**) and reaffirmed the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.12.00 crore bank facilities of Himalyan Plastics Limited (HPL). The outlook is '**Stable**'.

The downgrade in the rating is on account of significant decline in revenues, profitability and elongation in the working capital cycle leading to deterioration in the financial risk profile of the company.

Himalyan Plastic Limited (HPL), a unit of Himalyan Group of Industries, was incorporated as a Private Limited Company in 1980 under the name of 'Himalyan Plastics Pvt Ltd'. Subsequently, HPL was converted into Public Limited Company in the year 2001. HPL is engaged in the manufacturing of HDPE Pipes, HDPE telecom ducts for use as underground cable conduits, MDPE pipes and sprinklers.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the HPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced promoters and established track record of operations**

HPL, incorporated in 1988, has a long track record of 30 years in the plastic industry. The promoters, Mr. Madan Sharma, Mr. Ajay Sharma and Mr. Sridhar Bihara have more than three decades of experience in the plastic industry. They have developed good relations with suppliers and customers. Their clientele includes reputed companies such as Idea Vodafone, Power Grid Corporation and Rail Tel to name a few. In addition, its suppliers comprise of GAIL, Indian Oil Corporation and others.

Weaknesses

- Working capital intensive nature of operations**

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 728 days in FY2019 (Prov.) which increased from 463 days in FY2018 and 252 days in FY2017. The GCA days are mainly dominated by high debtor of 542 days in FY2019 (Prov.) against 311 days in FY2018. Debtors include amounts receivable from the government on sale of sprinklers. These amounts are generally received in delay. The average cash credit utilisation for the past six months stood at ~90-95 percent.

Acuité believes that efficient working capital management will be crucial for the company in order to maintain a stable credit profile.

- Average financial risk profile**

The financial risk profile of the firm is marked by low net worth, low debt protection measures and moderate gearing. The tangible net worth of the firm stood at Rs.5.14 crore as on 31 March, 2019 (Prov.) as against Rs.5.06 crore as on 31 March, 2018. The company has followed a moderate leverage policy as reflected by average gearing of 2.01 times over the last three years through 2018-19. The gearing of the company is expected to reduce in the near term. Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.25 times as on 31 March, 2019 (Prov.) as against 2.50 times as on 31 March, 2018

and is estimated to remain under 2.00 times over the near to medium term. Interest Coverage Ratio (ICR) improved to 1.19 times in FY2019 (Prov.) against 1.27 times in FY2018.

Acuite believes that improvement in revenues and profitability will be key factors that will influence the financial risk profile of the company.

• **Highly competitive and fragmented industry**

Plastic industry is a highly competitive industry due to low entry barriers that results in intense competition from both the organised as well as unorganised players in the industry.

Liquidity Position:

Liquidity of HPL is stretched as marked by low net cash accruals of Rs.0.20-0.50 crore with repayment obligations of less than Rs.0.10 crore during the last three years. The cash accruals of the company are expected to improve with low repayment obligations. The company's working capital operations are intensive as marked by gross current asset (GCA) days of 728 in FY2019 (Prov.). This has led to high reliance on working capital borrowings as evident by cash credit limit utilisation of around 95 percent. The company maintains unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2019 (Prov.). The current ratio of the company stood moderate at 1.31 times as on March 31, 2019 (Prov.). Acuite believes that the liquidity of the company will remain moderate over the near term on account of increasing net cash accruals sufficient to service repayment obligations and absence of any major debt funded capex plans.

Outlook: Stable

Acuite believes that the outlook for HPL will remain 'Stable' over the near to medium term on the account of extensive management's experience of over three decades. The outlook may be revised to 'Positive' if the company achieves higher than expected growth in revenue and profitability while effectively managing its working capital cycle or improvement in the capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the liquidity profile or financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	7.49	12.44	26.24
EBITDA	Rs. Cr.	0.59	1.79	2.15
PAT	Rs. Cr.	0.07	0.15	0.33
EBITDA Margin	(%)	7.93	14.40	8.20
PAT Margin	(%)	0.98	1.22	1.25
ROCE	(%)	9.04	10.75	14.20
Total Debt/Tangible Net Worth	Times	1.86	2.17	2.01
PBDIT/Interest	Times	1.19	1.27	1.44
Total Debt/PBDIT	Times	6.07	5.88	4.43
Gross Current Assets (Days)	Days	728	463	252

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Acuite 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. Crore)	Ratings/Outlook
02-Apr-2018	Cash Credit	Long Term	9.00	ACUITE B + (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Reaffirmed)
30-Dec-2016	Cash Credit	Long Term	7.00	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Assigned)

*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	9.00	ACUITE B /Stable (Downgraded from ACUITE B+ / Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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