

Press Release

Himalyan Plastics Limited

August 26, 2020



Rating Reaffirmed and Assigned

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

* Refer Annexure for details

Rating Rationale

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

Himachal Pradesh based, Himalyan Plastics Limited (HPL) was incorporated in 1980 as a private limited company and later converted to a public limited company in 2001. HPL is engaged in the manufacturing of Telecom Ducts, HDPE Pipes, MDPE pipes and sprinklers. The major clientele of the company for telecom ducts includes Vodafone, Jio, Airtel, and various government departments & private organizations.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

HPL was incorporated in 1980 as a private limited company and later converted to a public limited company in 2001. The promoters of the company are Mr. Madan Sharma, Mr. Ajay Sharma and Mr. Sridhar Bihara, who have experience of more than three decades in the aforementioned line of business. The experience of the promoters has helped the firm to develop healthy relationships with customers and suppliers.

Acuité believes that the company will continue to benefit through the promoters' industry experience and healthy relationships with customers and suppliers.

Weaknesses

- **Average financial risk profile**

HPL's financial risk profile is average, marked by modest net worth and average debt protection metrics. The firm's net worth is modestly estimated at around Rs.5.56 crore (Prov) as on March 31, 2020.

The gearing levels were 1.63 times (Prov) as on March 31, 2020 as compared to 1.74 times as on 31 March 2019. The total debt of Rs.9.07 crore (Prov) in FY2020 comprised long term debt of Rs.4.04 crore (Prov) and working capital requirements of Rs.5.03 crore (Prov). Total outside liabilities to total net worth (TOL/TNW) stood at 1.73 times (Prov) as on 31 March, 2020 as against 2.22 times as on 31 March, 2019.

The company generated cash accruals of Rs.0.23 crore (Prov) in FY2020 as against Rs.0.51 crore in FY2019. The NCA/TD and interest coverage ratio for FY2020 was moderate at 0.03 times (Prov) and 1.18 times (Prov), respectively.

Acuité believes the financial risk profile is likely to remain average over the medium term, on account of moderate gearing and average debt protection metrics.

• Elongated working capital cycle

The company's working capital management is intensive marked by its Gross Current Asset (GCA) days of around 787 days (Prov) in FY2020 as against 749 days in FY2019. The company has maintained an inventory holding period of 142 days (Prov) as on 31 March, 2020 as against 135 days as on 31 March, 2019. The debtor days remained around 600 (Prov) in FY2020 as against 577 days in FY2019, on account of slow collection from telecom companies.

Acuite expects the working capital management of the company to remain intensive over the medium term on account of its debt collection period.

• Highly competitive and fragmented nature of the industry

The company operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Stretch in the working capital cycle leading to an increase in reliance on working capital borrowings

Material Covenants

None

Liquidity position: Poor

HPL has poor liquidity, marked by inadequate net cash accruals. The company generated cash accruals of Rs.0.23 crore (Prov) for FY2020 with no major debt repayment obligations of for the same period. The cash accruals of HPL are estimated to remain in the range of around Rs.0.20 crore to Rs.0.23 crore during 2021-23 against debt repayment obligations in the estimated range of around Rs.0.04-Rs.0.57 crore per year in the same period. The average bank limit utilization over the past six months ended July 2020 remained at 100 percent. The company maintains unencumbered cash and bank balances of Rs.0.05 crore (Prov) as on 31 March 2020. The current ratio stood at 2.55 times (Prov) as on 31 March 2020.

Acuite believes that the liquidity of the company is likely to remain poor on account of inadequate cash accrual against debt repayments over the medium term.

Outlook: Stable

Acuite believes that HPL will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	6.43	7.79
PAT	Rs. Cr.	0.06	0.33
PAT Margin	(%)	0.96	4.28
Total Debt/Tangible Net Worth	Times	1.63	1.74
PBDIT/Interest	Times	1.18	1.46

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Jun-2019	Cash Credit	Long Term	9.00	ACUITE B/Stable (Downgraded from ACUITE B+/Stable)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Reaffirmed)
02-Apr-2018	Cash Credit	Long Term	9.00	ACUITE B+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Reaffirmed)

***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	5.00	ACUITE B/Stable (Reaffirmed)
Working Capital Term Loan	10- Feb-2020	Not Applicable	10-Feb-2029	4.00	ACUITE B/Stable (Assigned)
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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