Press Release

Gujarat Polysol Chemicals Private Limited

12 April, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.68.75 Crore
Long Term Rating	SMERA BBB/Stable (Assigned)
Short Term Rating	SMERA A3+ (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB' (read as SMERA triple B)** and short term rating of **'SMERA A3+' (read as SMERA A three plus)** on the Rs.68.75 crore bank facilities of Gujarat Polysol Chemicals Private Limited (GPCPL). The outlook is **'Stable'**.

Gujarat Polysol Chemicals Private Limited (GPCPL) is a Vapi-based company incorporated in 1989 by Mr. Shailesh Desai. Promoted by Mr. Shailesh Desai, Mrs. Nilima Desai (wife) and Mr. Umang Desai (son), the company is engaged in the manufacturing and trading of chemicals - disperse agents used in construction, textile, leather and agro chemical industries. The finished products are intermediates that are used as raw material in admixtures. The manufacturing unit is located at Vapi with total installed capacity of 48000 Metric Tonnes Per Annum (MTPA).

The company took over Triwal Board Private Limited (TBPL), a nonfunctional company in FY2017-18 and plans to merge it with GPCPL in FY2018-19. The acquisition is expected to help the company expand installed capacity from 48000 MTPA to 68000 MTPA.

GPCL mainly caters to the domestic market and has limited presence in Bangladesh, Indonesia, Singapore and Vietnam.

Key rating drivers

Strengths:

Established track record of operations and experienced promoters

GPCPL has established presence in the chemical industry for the last three decades and also benefits from the extensive experience of its promoters, Mr. Shailesh Desai and Mr. Umang Desai. The established position has helped the company maintain long standing relations with its customers and suppliers. The company reported modest Compound Annual Growth Rate (CAGR) of around 10 percent during the last five years. The operating income increased from Rs.139.05 crore in FY2013 to Rs.223.71 in FY2017. Further, as informed by the management GPCPL reported Rs.350.00 crore during FY2018 (11M). The growth in revenue is driven by growth in orders from reputed customers including BASF India Limited and Fosroc Chemicals (India) Private Limited.

The promoters collectively possess around three decades of experience in the chemical industries including dyes, intermediates & construction chemicals. The top management is ably supported by a well-qualified and experienced second line of management.

Going forward, SMERA believes that the company will maintain its business risk profile on account of its established position and experienced promoters.

Healthy financial risk profile

GPCPL has healthy financial risk profile marked by adjusted tangible networth of Rs.40.14 crore as on 31 March, 2017 as against Rs.35.89 crore in the previous year. The adjusted debt-to-equity stood at 0.83 times as on 31 March, 2017 as against 0.58 times in the previous year. For arriving at the adjusted tangible networth, SMERA has considered inter-corporate borrowings of Rs.2.82 crore as quasi equity as the same is subordinated to bank debt. The Interest Coverage is comfortable at 2.66 times for FY2017 as against 2.08 times in the previous year. Further, the Debt Service Coverage Ratio (DSCR) stood at 1.59 times for FY2017 and 1.13 times in the previous year. The Net Cash Accruals improved from Rs.2.21 crore in FY2016 to Rs.4.96 crore in FY2017. Further, the company reported Return on Capital Employed (RoCE) of around 15.53 percent for FY2017 as against 14.38 percent in the previous year.

The company acquired TBPL for Rs.21.00 crore funded through debt of Rs.17.00 crore and internal accruals. The debt funded acquisition is not expected to have any adverse impact on the financial risk profile of the company.

Going forward, SMERA expects the company to maintain its financial risk profile on account of continuous improvement in the net cash accruals and absence of major debt funded capex plan.

Weaknesses:

Working capital intensive operations

The operations are highly working capital intensive evident from the high Gross Current Asset (GCA) days of 184 for FY2017 as against 198 days in the previous year. The high GCA days are on account of stretched debtor days which stood at 136 for FY2017 as against 160 days for FY2016. Further, GPCPL also paid an advance of Rs.6.22 crore to suppliers as on 31 March, 2017 as against Rs.3.62 crore in the previous year leading to stretched operating cycle. However, the company maintains comfortable liquidity position with average cash credit limit utilisation of around 80 percent for the last six months ended 28 February, 2018.

Susceptibility of margins to volatility in raw material prices

The major raw material for GPCPL is VPEG (Vinyl Poly Ethelene Glycol) and naphthalene which is mainly imported from South Korea and Russia or Ukraine respectively. The price of the both the raw material is highly volatile, any adverse movement in raw material prices can impact profitability. The company imports around 25 percent of its raw material requirement from countries including South Korea, China, Hong Kong, Russia, UAE and Malaysia. However, the company covers the entire forex exposure under the forward contract. Hence, the margins are protected against fluctuations in forex rates to that extent.

Highly fragmented and competitive chemical industry

The chemical industry is highly fragmented with several organised and unorganised players. GPCPL faces stiff competition from other players limiting the pricing flexibility of the company.

Analytical approach:

SMERA has considered the standalone business and financial risk profile of Gujarat Polysol Chemical Private Limited.

Outlook: Stable

SMERA believes that GPCPL will maintain a ‘Stable’ outlook over the medium term on account of its established operations and extensive experience of the promoters in the chemical industry. The outlook may be revised to ‘Positive’ in case the company registers significant growth in revenue and profitability margin while effectively managing its working capital cycle. Conversely, the outlook may be revised to ‘Negative’ in case of significant decline in net cash accruals, deterioration in the financial risk profile owing to debt funded capex undertaken or higher than expected working capital borrowings.

Applicable Criteria

- Manufacturing Entities – https://www.smera.in/criteria-manufacturing.htm
- Default Recognition - https://www.smera.in/criteria-deafult.htm
- Application of Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

About the Rated Entity –Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	223.71	187.00	172.21
EBITDA	Rs. Cr.	10.69	8.60	7.36
PAT	Rs. Cr.	4.25	1.66	2.51
EBITDA Margin	(%)	4.78	4.60	4.28
PAT Margin	(%)	1.90	0.89	1.45
ROCE	(%)	15.53	14.38	14.08
Total Debt/Tangible Net Worth	Times	0.83	0.58	0.69
PBDIT/Interest	Times	2.66	2.08	2.11
Total Debt/PBDIT	Times	3.02	2.32	3.06
Gross Current Assets (Days)	Days	184	198	191

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

CRISIL in its press release dated 10 November, 2017 had inter-alia mentioned the following: 'CRISIL has been consistently following up with Gujarat Polysol Chemicals Private Limited (GPCPL) for obtaining information through letters and emails dated May 29, 2017 and September 05, 2017 apart from telephonic communication. However, the issuer has remained non cooperative.

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00*	SMERA BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.50#	SMERA BBB/Stable
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00**	SMERA A3+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00^	SMERA A3+

** Includes sublimit of bill discounting facility to the extent of Rs. 10.00 crore.*
***Includes sublimit of Buyer's Credit to the extent of Rs. 40.00 crore.*
^Includes sublimit of letter of credit of Rs. 1.00 crore.
 # Includes sublimit of capex letter of credit of Rs. 2.50 crore.

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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