Press Release

Gujarat Polysol Chemicals Private Limited

January 04, 2019

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 96.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** to the Rs.26.75 crore and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs. 42.00 crore bank facilities of Gujarat Polysol Chemicals Private Limited (GPCPL).

Further, Acuité has assigned long term rating of '**ACUITE BBB' (read as ACUITE triple B)** to the Rs. 2.25 crore and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs. 25.00 cr. bank facilities of GPCPL. The outlook is **'Stable'**.

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 such as 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 100,000 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 100,000 MTPA.

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

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**
  GPCPL has established presence in the chemical industry for the last three decades and also benefits from the extensive experience of its promoters. 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 20 percent during the last four years. The operating income increased from Rs.172.21 crore in FY2015 to Rs.355.05 in FY2018. Further, GPCPL reported income of Rs.193.95 crore during FY2019 (7M). 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 and construction chemicals. The top management is ably supported by a well-qualified and experienced second line of management. Going forward, Acuité 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 healthy net worth, debt protection metrics and coverage indicators of the company. The tangible net worth of the company stood at Rs.48.46 crore (including quasi equity of Rs.2.82 crore) as on 31 March, 2018 as against Rs.40.14 (including quasi equity of Rs.2.82 crore) in

the previous year. The Gearing (debt-to-equity) stood at 0.96 times as on 31 March, 2018 as against 0.83 times as on 31 March, 2017. Interest Coverage Ratio (ICR) has improved to 3.63 times for FY2018 as against 2.66 times for FY2017. Further, Debt Service Coverage Ratio (DSCR) stood at 2.23 times for FY2018 as against 1.59 times for FY2017. Net Cash Accruals has improved to Rs.9.57 crore for FY2018 as against Rs.4.96 crore in the previous year. Further, the company reported Return on Capital Employed (RoCE) of 21.07 percent for FY2018 as against 15.53 percent for FY2017. The company has acquired TBPL in FY2018 for Rs.21.00 crore funded through debt of Rs.17.00 crore and internal accruals. Going forward, Acuité 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

- **Moderate working capital nature of operations**

The working capital operations of the company have marginally improved in FY2018 over FY2017. Even after marginal improvement, the operations of GPCPL are working capital intensive in nature. The company has marked improvement in Gross Current Assets (GCA) in FY2018 which stood at 144 days as against 184 days in the previous year. The improvement is majorly on account of lower debtor levels in FY2018 which stood 112 as against 135 in FY2017. However, the company maintains comfortable liquidity position with average cash credit limit utilisation of around 70 percent for the last six months ended November, 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 prices of the both the raw materials are 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.

Outlook: Stable

Acuité 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.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	355.05	223.71	187.00
EBITDA	Rs. Cr.	18.88	10.69	8.60
PAT	Rs. Cr.	8.32	4.25	1.66
EBITDA Margin	(%)	5.32	4.78	4.60
PAT Margin	(%)	2.34	1.90	0.89
ROCE	(%)	21.07	15.53	14.38
Total Debt/Tangible Net Worth	Times	0.96	0.83	0.58
PBDIT/Interest	Times	3.63	2.66	2.08
Total Debt/PBDIT	Times	2.40	3.02	2.32
Gross Current Assets (Days)	Days	144	184	198

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-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading entities - http://acuite.in/view-rating-criteria-6.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
12-Apr-2018	Cash Credit	Long term	23.00^	ACUITE BBB/Stable (Assigned)
	Term Loan	Long term	1.25	ACUITE BBB/Stable (Assigned)
	Term Loan	Long term	2.50#	ACUITE BBB/Stable (Assigned)
	Bill Discounting	Short Term	1.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	40.00^^	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	1.00$	ACUITE A3+ (Assigned)

^ 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.

***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^	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BBB/Stable (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.50#	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BBB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00^^	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00$	ACUITE A3+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Assigned)

^ 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.

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About Acuité Ratings & Research:
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