Press Release

GUJARAT POLYSOL CHEMICALS PRIVATE LIMITED

June 26, 2019

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.103.00 Cr. (Enhanced from Rs 96.00 crore)
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)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs. 96.00 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. 7.00 crore of bank facilities of 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 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 105,000 Metric Tonnes Per Annum (MTPA).

The company took over Triwal Board Private Limited (TBPL), a non-operating company in FY2017-18 and merged it with GPCPL in FY 2018-19. The acquisition and regular capex in FY2018 and 2019 helped the company in enhancing its installed capacity from 48000 MTPA to 105,000 MTPA.

GPCPL 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 profile of GPCPL to arrive at this rating.

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. GPCPL reported comfortable growth in its revenues at a Compound Annual Growth Rate (CAGR) of around 25 percent during the last four years. The operating income increased from Rs.187.0 crore in FY2016 to Rs.369.4 crore in FY2019 (Provisional).

  The growth in revenue is driven by growth in orders from reputed customers including BASF India Limited and Fosroc Chemicals (India) Private Limited among others, besides regular capacity addition. 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, Acuité believes that with current capacity utilisation at about 60 per cent, and penetration into new markets and deep penetration with the existing clientele, the business risk profile is expected to improve further over the medium term.

- **Healthy financial risk profile**

  GPCPL has healthy financial risk profile marked by healthy gearing (debt-to-equity), comfortable total outside liabilities to tangible net worth (TOL/TNW) and debt protection metrics. The gearing is healthy at 1.01 times as on March 31, 2019 (Provisional) in line with the past at about 1 time. Also, its TOL/TNW is comfortable at 2 times as on March 31, 2019 (Provisional), an improvement from 3.0 times as on March 31, 2018. The tangible net worth of the company is comfortable at Rs.60.86 crore (including quasi equity of Rs.2.82 crore) as on 31 March, 2019 (Provisional) as against Rs.48.46 crore in the previous year. The debt protection metrics are comfortable with Interest Coverage Ratio and net cash accruals to total debt (NCA/TD) improved to 3.73 times and 0.23 times for FY2019 (Provisional) as against 3.63 and 0.21 times for FY2018. GPCPL reported cash accruals of Rs.14.2 crore in FY2019 (Provisional) against Rs.9.57 crore for FY2018. GPCPL acquired TBPL in FY2018 for a total consideration of Rs.21.00 crore funded through debt of Rs.17.00 crore and internal accruals. Further in FY2019, the company has invested about Rs.12.00 crore on capacity expansion funded out of debt of Rs.10.00 crore. 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 plans.

Weaknesses

- **Working capital intensive operations**

  The operations are moderately working capital intensive with gross current asset (GCA) of about 142 days in FY2019, and a moderate improvement from the past levels of about 190 days; the improvement is majorly on account of lower debtor levels in FY2019 (Provisional) which stood at 104 days as against 160 days in the past. Improving GCA and comfortable accruals lead to moderate utilisation of its working capital limits at around 43 percent for the last six months ended March, 2019. Acuité believes that improving accruals and moderation in capex is expected to support its liquidity.

- **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.

Liquidity Position

GPCPL's liquidity is comfortable marked by comfortable cash accruals to its maturing debt obligations and capex requirements. It reported cash accruals of Rs.14.2 crore in FY2019 (Provisional). Cash accruals of the company are estimated to remain around Rs.14-17 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 2.85 crore leaving adequate comfort for the incremental working capital requirements. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 142 in FY 2019 (Provisional). Improving GCA led to lower reliance on working capital borrowings with utilisation at about 43 percent during the last 6 months period ended April 2019. The company maintains unencumbered cash and bank balances of Rs.2.38 crore as on March 31, 2019 (Provisional). The current ratio of the company stood comfortable at 1.67 times as on March 31, 2019. The company has incurred capex of Rs.12.00 crore in FY2019 funded out of debt of about Rs.10.00 crore, and is not expecting any significant debt-funded capex. Acuité believes that comfortable cash accruals vis-à-vis repayment obligations and moderation in capex are expected to support in improvement of its liquidity over the medium term.

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 sustains the growth in its revenues and profitability while maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any significant capex or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY2018 (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	29.03
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/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading 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
04-Jan-2019	Cash Credit	Long Term	23.00*	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	1.25	ACUITE BBB/Stable (Reaffirmed)
	Bill Discounting	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	2.50#	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	2.25	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	40.00**	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	1.00^	ACUITE A3+ (Reaffirmed)

	Letter of Credit	Short Term	25.00	ACUITE A3+ (Reaffirmed)
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. Cr.)	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 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.00	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+ (Reaffirmed)

** 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.

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in P Krishi Keyan Analyst - Rating Operations Tel: 040-40274590 krishi.keyan@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.