

Press Release

Gujarat Polysol Chemicals Private Limited

August 19, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.103.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB/ Stable)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.103.00 crore bank facilities of Gujarat Polysol Chemical Private Limited (GPCPL). The outlook is '**Stable**'.

The upgrade revision in the rating is on account of improvement in overall financial risk profile marked by capital structure, gearing and debt protection metrics. Moreover, the upgrade also considers the growth in operating performance along with profitability margins.

About the Company

GPCPL was incorporated in 1989 by Mr. Shailesh Desai, Mrs. Nilima Desai. The company is engaged in manufacturing and trading of chemicals - disperse agents used in construction, textile, leather and agrochemical industries. The product portfolio is known as intermediates that are used as a raw material in admixtures. GPCPL has manufacturing unit located at Vapi with a total installed capacity of 106,000 Metric Tonnes Per Annum (MTPA).

Analytical Approach

To arrive at the rating, Acuite has considered the standalone business and financial risk profile of GPCPL.

Key Rating Drivers

Strengths

• Experienced promoters, diversified product portfolio along with improving business risk profile

GPCPL was founded by Mr. Shailesh Desai and Mrs. Nilima Desai in 1989. The promoters have experience of more than three decades in the chemical industry and well supported by the second line of management comprising of Mr. Umang Desai. The extensive experience of the promoters has helped GPCPL to established healthy relationships with the reputed customers like BASF India Limited, Fosroc Chemical India Private Limited and among others. This long term association with the reputed customers has benefitted GPCPL in getting repeated orders.

Further, GPCPL has diversified product portfolio catering various segments such as construction, agro, textile and leather. GPCPL also does the trading of some chemicals in the construction segment. The diversification has also enabled the risk to diversify across the various segment.

The operating income of the company has improved to Rs.395.97 crore in FY2020 from Rs.369.23 crore in FY2019. The company is growing at compounded annual growth rate (CAGR) of 6% percent since FY2018. The improvement is on back of expansion in manufacturing capacity to 106000 MTPA from 48000 MTPA. The operating and PAT margins of the company have also improved to 8.34 percent and 4.83 percent in FY2020 as compared to 6.94 percent and 3.44 percent in FY2019.

In current fiscal FY2021, the company has merged with its two sister concern firms, Urmi Polymer Industries and Polysol Industries. Urmi Polymer Industries is manufacturing and trading of solvents. This merger would aid the backward integration for GPCPL. Polysol Industries is engaged into trading of edible oils.

Acuite believes that the GPCPL promoter's established presence in the chemical sector and revision in business strategy to support its business risk profile over near to medium term.

• **Healthy financial risk profile**

GPCPL's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of GPCPL is healthy at around Rs.77.59 crores as on March 31, 2020 as against Rs.58.48 crore as on March 31, 2019. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy accretion to reserves.

The GPCPL has followed conservative financial policy; the same is reflected through its peak gearing in the past around 1.08 times as on March 31, 2018, and improved to the current levels of 0.73 times as on March 31, 2020. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 2.09 times as on March 31, 2020 as against 2.99 times as on March 31, 2019. The total debt of Rs.56.72 crore as on March 31, 2020 comprising of working capital borrowings to the tune of Rs.21.50 crore, term loans to the tune of Rs.33.81 crore and unsecured loans from promoters of Rs.1.41 crore.

The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 5.10 times and 2.45 for FY2020 as against 4.08 times and 2.21 times for FY2019, respectively. NCA/TD stood at 0.37 times in FY2020 as against 0.23 times in FY2019. Acuite believes that the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

• **Working capital intensive operations**

Despite improvement, the operations of GPCPL are intensive marked by GCA days of 153 in FY2020, an improvement from 169 in FY2019. The GCA days are mainly dominated by debtor days of 110 for FY2020 as against 104 days for FY2019. Debtor days are high due to market competitiveness. The inventory days stood at 32 days for FY2020 as against 24 days in FY2019. Further, creditor days stood at 89 days for FY2020 as against 90 days for FY2019.

Acuite believes that efficient working capital management will be crucial to the GPCPL in order to maintain a stable credit profile.

• **Susceptibility of operating performance to input price volatility and increasing competition**

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 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. Further, 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: Adequate

GPCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.21.09 crore during the last three years through FY2020, while its maturing debt obligations are in the range of Rs.3-5.35 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs.20-23 crore during 2021-23, while its repayment obligation are estimated to be around Rs.4.80 crore. The working capital operations of the company are intensive, marked by Gross Current Asset (GCA) days of 153 in FY2020. The company maintains unencumbered cash and bank balances of Rs.0.09 crore as on March 31, 2020. The current ratio stands at 1.36 times as on March 31, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual against repayments over the medium term.

Rating Sensitivity

- Elongation in the working capital cycle
- Improvement in operating performance while maintaining profitability margins

Material covenants

None

Outlook: Stable

Acuite believes that GPCPL will maintain a 'Stable' outlook over the medium term on account of promoter's experience in the industry and its improving business risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or

deterioration of financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	395.97	369.23
PAT	Rs. Cr.	19.11	12.71
PAT Margin	(%)	4.83	3.44
Total Debt/Tangible Net Worth	Times	0.73	1.04
PBDIT/Interest	Times	5.10	4.08

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
26-Jun-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)
	Term Loan	Long Term	7.00	ACUITE BBB / Stable (Assigned)
	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)
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 (Assigned)
	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+ (Assigned)
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 (Upgraded from ACUITE BBB/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	1.25	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
Term Loan	Not Available	Not Applicable	Not Available	2.50#	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	2.25	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	7.00	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00**	ACUITE A2 (Upgraded from ACUITE A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00^	ACUITE A2 (Upgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2 (Upgraded from ACUITE 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.

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About Acuité Ratings & Research:

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