

Press Release

Gujarat Polysol Chemicals Private Limited

May 28, 2021



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.145.00Cr (Enhanced from Rs.103.00Cr)
Long Term Rating	ACUITE A-/ Outlook: Stable (Upgraded from ACUITE BBB+/Stable)
Short Term Rating	ACUITE A2+ (Upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A-**' (**read as ACUITE A minus**) from '**ACUITE BBB+**' (**read as ACUITE triple B**) and the short term rating to '**ACUITE A2+**' (**read as ACUITE A two plus**) from '**ACUITE A2**' (**read as ACUITE A two**) on the Rs.119.38 Cr bank facilities of GUJARAT POLYSOL CHEMICLAS PRIVATE LIMITED (GPCPL). The outlook is '**Stable**'.

Further, Acuité has assigned long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on Rs.25.62Cr bank facilities of GPCPL. The outlook is '**Stable**'.

Reason for upgrade

The rating is upgraded on account of overall improvement in the business risk profile and expected growth in the business with respect to the new products added by the company in its product portfolio along with the focus on the export market and strong outlook associated in the chemical sector of India. The company's financial risk profile has improved marked by strong net worth coupled with comfortable debt protection metrics and coverage indicators followed by strong liquidity profile and high profitability margins of the company. EBITDA stood at Rs.65.26Cr (Prov.) in FY2021 as against Rs.33.02Cr in FY2020. The NCA/TD and interest coverage ratio for FY2021 stands at 0.58 times (Prov.) and 5.10 times (Prov.) respectively as against 0.37 times and 5.10 times in FY2020. The debt service coverage ratio stood 3.59 times (Prov.) in FY2021 as against 1.96 times in FY2020.

About the Company

Gujarat Polysol Chemicals Private Limited is a Vapi-Gujarat based company promoted by Mr. Shailesh Desai and the family members. The company was incorporated in the year 1989 and was initially engaged in manufacturing dyes and dye intermediates. However, currently the company is engaged in manufacturing and trading of various types of chemicals primarily the disperse agents which have wide application in the industries like construction, textile, leather and agro chemicals. The company is one of the leading manufacturers of wide range of chemicals and intermediates in India. The company has its manufacturing unit at Vapi, Gujarat with an installed capacity of 1, 30,400MTPA in FY2020-21. The capacity utilization stood at around 58.44 percent for the FY2020-21.

Analytical Approach

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

Key Rating Drivers

Strengths

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

Gujarat Polysol Chemicals Private Limited was incorporated in the year 1989. The company has a long track record of operation of more than three decades in the aforementioned industry. The company is promoted by Mr. Shailesh Desai and the family members. The promoters have an experience of more than three decades in the chemical industry. The extensive experience of the promoters and established track record of operation has helped the company to maintain healthy relationship with its customers.

and suppliers.

The chemicals manufactured by the company find it use in industries like Infrastructure, Agro/ Pesticide, Leather and Textile industries wherein the chemicals are used as an admixture to make the final product. The company generates around 60 percent of revenue from Infratech Chemicals followed by 22 percent from Agro Chemicals and 10 and 8 percent respectively from Leather chemicals and Textile chemicals.

Acuité believes that the company will benefit from its experienced management, long track of operation and diversified product portfolio.

• Merger of two sister concern companies/firm and expected acquisition of a proprietorship concern

The company merged its two sisters' concern company on account of same line of business, same management and also for the purpose of ease of doing business. Through this merger the installed capacity of the company increased by around 24,800MTPA to 1, 30,400MTPA. Through this merger the company has been able to mitigate the additional expenses that the company has to bare as the one of the sister concerns' company was engaged in job work for GPCPL. Through this backward integration, the company is able to improve its EBITDA in absolute term. The company has also been able to improve its operating income by around Rs.8.00-9.00Cr through the merger of its sister concern companies.

The company is under the process of acquiring one of the proprietorship concerns in next two months. It is expected that through this acquisition the installed capacity of the company will be increasing by around 1.50lakh Tons wherein the company won't be having any capacity deficit till FY2024.

• Healthy financial risk profile

GPCPL's financial risk profile is healthy marked by strong net worth, low gearing coupled with comfortable debt protection metrics and coverage indicators. The company's net worth stood at Rs.149.02Cr (Prov.) as on March 31, 2021 as against Rs.77.59 Cr as on March 31, 2020. The net worth levels have seen significant improvement over the year through FY2021 on account of healthy accretion to reserves over the period and increase in the share premium due to the merger of its two sisters' concern company. The company has followed conservative leverage policy in the past which can be witnessed with peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.04 times and 2.99 times respectively in FY2019. The gearing has improved and continues to remain low at around 0.51 times (Prov.) as on March 31, 2021 as against 0.73 times as on March 31, 2020. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 1.23 times (Prov.) as on March 31, 2021 as against 2.09 times as on March 31, 2020. The company on the other hand generated cash accruals of Rs.44.02Cr (Prov.) in FY2021 as against Rs.21.09Cr in FY2020.

The revenue of the company has declined by around 4.08 percent to Rs.379.80Cr (Prov.) in FY2021 from Rs.395.97Cr in FY2020. Though the operating income of the company has declined marginally; the company's sale volume has increased by around 16.69 percent. The reason for decline in the operating income is due to focus more on the manufacturing segment as against the treading segment. The company's revenue from the manufacturing segment has increased to 84.59 percent in FY2021 as against 78.48 percent in FY2020. Secondly, the decline in the operating income is also due to nationwide lockdown in view of Covid-19 pandemic that impacted the quarter-1 performance of the company. During initial months of FY2021, the company used to operate at 40-50 percent efficiency level; however after June, 2020 onwards the company was able to sustain itself at the Pre-Covid level.

EBITDA has been improving for the last three years under the study. However it has increased significantly in FY2021 as against FY2020. EBITDA stood at Rs.65.26Cr (Prov.) in FY2021 as against Rs.33.02Cr in FY2020. The improvement in EBITDA is due to the benefit that the company got in terms of procuring the raw material. Looking at the orders in hand, the company had procured the raw material in Q-4 of FY2020 and Q-1 of FY2021 at lower prices. This is because during that quarter of the financial year, the overall demand had subdued in view of Covid-19 and the prices of the material had declined. The company took the advantage of this situation and started procuring the raw material in a bulk quantity. Later, from Q-2 of FY2021, when the demand increased, the company was able to roll out its product at good premium rates. The PAT of the company has improved to Rs.40.61Cr (Prov.) in FY2021 as against Rs.19.11Cr in FY2020. The improvement in the PAT is due to change in the product mix and stronger cost management.

The increase in the profitability level, coupled with moderate debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2021 stands at 0.58 times (Prov.) and 5.10 times (Prov.) respectively as against 0.37 times and 5.10 times in FY2020. The debt service coverage ratio stood 3.59 times (Prov.) in FY2021 as against 1.96 times in FY2020. The Debt-EBITDA ratio stands at

1.16times (Prov.) in FY2021 against 1.70times in FY2020.

Acuite believes the financial risk profile of the company will continue to remain healthy on account of its healthy revenue growth, healthy cash accruals and no major debt funded capex in near to medium term.

- **Significant improvement in the profitability margins**

The profitability margin of the company has improved significantly in FY2021 as against FY2020. The operating margin of the company has increased to 17.18 percent (Prov.) in FY2021 as against 8.34 percent in FY2020. Similarly, the PAT margin of the company has improved to 10.69 percent (Prov.) in FY2021 as against 4.83 percent in FY2020. The improvement in the operating margin factors multiple reasons. Currently, the company is focusing on the export market as it is fetching higher margin as compared to the domestic market. In FY2021 the export proportion constituted around 1.57 percent (Prov.) of net sales as against 1.23 percent of net sales in FY2020. The management is expecting that they will be achieving an export of around 5.00 percent of net sales by FY2022. Secondly, the company has added 9 different chemical products in their product portfolio which has helped them to sell the products in the market at a higher margin. Thirdly, procuring the raw material at a lower cost also helped the company to improve its profitability margin. Also focusing more on the manufacturing segment is helping the company to improve its profitability margins.

Acuite expects the profitability margin to remain at the same over the medium term on account of diversifying the product portfolio, focus on manufacturing segment and measures undertaken for mitigation of foreign exchange risk and input price volatility.

Weaknesses

- **Working Capital Operation is intensive in nature**

GPCPL's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 224 days (Prov.) in FY2021 as against 153 days in FY2020. The working capital cycle has elongated to 71 days (Prov.) in FY2021 as against 40 days in FY2020. The inventory holding period has increased to 47 days (Prov.) as against 32 days as on March 31, 2020. The elongation in inventory is due to year end impact and also some of the products were under the work in progress stage. The debtor collection period stood at 140 days (Prov.) as on March 31, 2021 as against 97 days as on March 31, 2020. This is due to delay in the payment realization from the customers in view of Covid-19 pandemic. As a result the credit payment period has elongated to 116 days (Prov.) as on March 31, 2021 as against 89 days as on March 31, 2020. The average bank limit utilization stood low at around 50.42 percent for six months ended April, 2021, while its peak utilization was high at around 79.00 percent during the same period.

Acuite expects the working capital management to remain intensive over the medium term on account of higher debtor collection period offered to its customers for the payment realization.

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

The raw materials are procured both from the domestic market as well as through the imports. Around 40 percent of the products are procured through imports from countries like South Korea, Spain Singapore and China to name a few. The prices of the raw material are highly volatile in nature and any adverse movement in the price of raw material may impact the profitability of the company. Due to significant exposure to imports, there is a foreign fluctuation risk associated to it. However, the company mitigates this risk as it carries forward the price fluctuation risk on its customer. There is a price escalation clause in every contract wherein a specific timeline is mentioned for supplying the product and also any fluctuation in the price of the raw material is carried forward on the customers. Engaging itself into forward contracts, placing back to back orders and procuring the raw material at a bulk quantity helps the company to mitigate price volatility risk to a larger extent.

Rating Sensitivities

- Improvement in the scale of operation while maintaining its profitability margin at the current level
- Any deterioration or stretch in the working capital cycle may impact the financial risk profile

Material Covenants

No major covenants apart from the financial covenants

Liquidity position: Strong

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The

company generated cash accruals of Rs.44.02Cr (Prov.) in FY2021, while its' maturing debt obligation were Rs.6.74Cr for the same period. The cash accrual of the company is estimated to remain around Rs.50.00Cr to Rs.68.00Cr during 2022-24 against repayment obligations of around Rs.6.00Cr to Rs.7.00Cr during the same period. The company's working capital operations is intensive in nature marked by the gross current asset (GCA) days of 224 days (Prov.) in FY2021 as against 153 days in FY2020. The average bank limit utilization stood low at around 50.42 per cent for six months ended April, 2021. The company maintains unencumbered cash and bank balances of Rs.0.90Cr (Prov.) as on 31 March 2021. The current ratio of the company stood at 1.78 times (Prov.) as on 31 March 2021 as against 1.35 times as on March 31, 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that the company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and healthy financial risk profile. The outlook may be revised to 'Positive', if the group registers higher than expected growth in its revenue while maintaining its operating margins at its current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the company registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	379.80	395.79
PAT	Rs. Cr.	40.61	19.11
PAT Margin	(%)	10.69	4.83
Total Debt/Tangible Net Worth	Times	0.51	0.73
PBDIT/Interest	Times	8.52	5.10

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>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Entities in Trading Sector - <https://www.acuite.in/view-rating-criteria-61.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 the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Aug-2020	Cash Credit	Long Term	23.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Term Loan	Long Term	1.25	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)

	Bill Discounting	Short Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	2.50	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Term Loan	Long Term	2.25	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Term Loan	Long Term	7.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Letter of Credit	Short Term	40.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Letter of Credit	Short Term	25.00	ACUITE A2 (Upgraded from ACUITE A3+)
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)
	Cash Credit	Long Term	23.00	ACUITE BBB/Stable (Reaffirmed)
04-Jan-2019	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+ (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)

***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 A-/Stable (Upgraded from ACUITE BBB+/Stable)
Term Loan-I	08- May-2017	6.80%	28- Aug- 2021	1.88	ACUITE A-/Stable (Upgraded from ACUITE BBB+/Stable)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+/Stable)
Term Loan-II	07- Jan- 2018	7.30%	07-Jan-2023	2.50	ACUITE A-/Stable (Upgraded from ACUITE BBB+/Stable)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/Stable (Upgraded from ACUITE BBB+/Stable)
Term Loan-III	25- Jan-2021	7.80%	01- Apr-2029	17.92	ACUITE A-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.70	ACUITE A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2+/Stable (Upgraded from ACUITE A2)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+/Stable (Upgraded from ACUITE A2)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A2+/Stable (Upgraded from ACUITE A2)

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About Acuité Ratings & Research:

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