

Press Release

Indian Resins & Polymers

February 03, 2020



Rating Downgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 59.00 Cr
Long Term Rating	ACUITE BB-/Outlook: Stable (Downgraded from ACUITE BB/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) and re-affirmed short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 59.00 crore bank facilities of Indian Resins and Polymers (IRP). The outlook is 'Stable'.

The downgrade of IRP's rating reflects the deterioration in profitability metrics resulting in the deterioration in debt protection metrics, marked by negative interest coverage ratio (ICR) and Debt/EBITDA which stood at -7.12 times and -0.61 times respectively as on 31 March 2019. Further, the downgrade reflects continuous capital withdrawal of Rs. 8.70 crore in FY2019 and Rs. 6.75 crore in FY2018, which going forward may impact the capital structure of the firm.

IRP was established in 1979 by Mr. G. Sureshchandran Nair. IRP is a family run partnership firm by Mr. G. Sureshchandran Nair and his wife, Mrs. Rina Suresh Nair. The firm is engaged in cashew nut trading. The firm imports raw material from Africa and sell it in states of Andhra Pradesh, Tamil Nadu and Kerala.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of IRP to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record**

IRP is a partnership firm engaged in trading of raw cashew nuts. The business was established in 1979 by M. P. Gopinath Nair. Currently, the business is run by Mr. G. Sureshchandran Nair, son of Mr. P. Gopinath Nair. Initially, the firm was engaged in the business in manufacture of cashew kernels and shell oils and exporting the same. Cashew nut shell liquid (CSNL) oil business was discontinued in early 90's after the demise of Mr. P. Gopinath Nair and manufacturing was also discontinued in 2008-09. The firm now trades in raw cashew nuts. Nair family has over 45 years of experience in cashew business.

Acuite believes that IRP will continue to benefit from experienced management and established track record of operations.

Weaknesses

- **Deterioration in financial risk profile:**

The firm's financial risk profile has deteriorated in FY2019 on account of continuous decline in profitability metrics. The net worth of the firm declined to Rs. 15.12 crore as on 31 March, 2019 as compare to Rs. 23.82 crore as on 31 March 2018. The gearing though stood comfortable at 0.25 times as on 31 March, 2019 as compare to 0.35 times as on 31 March 2018, however the significant amount of capital withdrawal of Rs. 8.70 crore in FY2019 may impact the capital structure of the firm. The debt protection metrics deteriorated with dip in profitability metrics with interest coverage ratio becoming negative at -7.12 times as on 31 March, 2019. Further, NCA/TD stood at of -1.86 times in FY2019 from -0.11 times as on 31 March 2018.

Acuite believes that with moderate accruals and in absence of major capex, the financial risk profile is expected to improve over the medium term.

• Presence in competitive and fragmented industry:

The domestic cashew industry is highly fragmented, marked by the presence of many small players which leads to intense competition in both the organised and unorganised segments. This in turn puts pressure on the profitability margins of players such as IRF. The major raw material in the processing of cashews is raw cashew kernels. The prices of cashew kernels are fluctuating.

Acuite believes unless the firm is able to pass on price fluctuations to its customers, its margins will remain impacted.

Rating Sensitivity

- Healthy growth in revenues and operating margins.
- Improvement in capital structure.

Material Covenants

None

Liquidity Position: Stretched

The liquidity profile of the firm is stretched marked by negative cash accruals of Rs. -7.00 crore in FY2019 from Rs. -0.88 crore in FY2018. The firm has a cash and bank balance of Rs 11.15 crore as on 31 March 2019 which provides liquidity support. The current ratio of the firm stood at 2.72 times as on 31 March 2019 as against 3.40 times as on 31 March 2018.

Acuite believes that moderate accruals are expected to keep the liquidity position stretched in the near to medium term.

Outlook: Stable

Acuite believes that the outlook of IRP will remain 'Stable' over the medium term on account of experience of the management. The outlook may be revised to 'Positive' if IRP reports substantial growth in revenue while maintaining profitability and improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile or decline in operating margins.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	75.03	54.10
PAT	Rs. Cr.	-7.15	-1.05
PAT Margin	(%)	-9.53	-1.95
Total Debt/Tangible Net Worth	Times	0.55	0.40
PBDIT/Interest	Times	-7.12	-0.10

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing 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
27-Feb-2019	Secured Overdraft	Long Term	19.00	ACUITE BB/Stable (Assigned)
	Cash Credit	Long Term	16.00	ACUITE BB/Stable (Downgraded)
	Proposed Bank Facility	Short Term	24.00	ACUITE A4+ (Assigned)
	Buyers Credit	Short Term	40.00	ACUITE A3 (Withdrawn)
06-Dec-2017	Secured Overdraft	Long Term	19.00	ACUITE BBB-/Stable (Assigned)
	Buyers Credit	Short Term	40.00	ACUITE A3 (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BB- / Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE BB- / Stable (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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