

Press Release

Vasani Polymers Private Limited

December 07, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 17.20 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 16.35 crore bank facilities of Vasani Polymers Private Limited (VPPL). The outlook is '**Stable**'.

Acuité has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 0.85 crore bank facilities of Vasani Polymers Private Limited (VPPL). The outlook is '**Stable**'.

VPPL, incorporated in 2010 by Directors, Mr. Mahesh Patel and Mr. Pravin Patel is engaged in manufacturing of pipes (including PVC, SWR, column, casing) of various sizes ranging from 20mm to 400mm with pressure capacity of 0.5 KPa to 10 KPa (KiloPascal) at Talod (Gujarat). The installed capacity stands at 20,000 MTPA. The products are sold under 'Jaldhara', 'Sujlam' and 'Vasani' brand names and widely used in agriculture, irrigation, water distribution among others.

About the Group

The Gujarat-based, Vasani group was established in 2010 by Mr. Pravin Patel and Mr. Mahesh Patel. The group is engaged in manufacturing of PVC pipes and is also a registered AA contractor for the Roads and Building Department of the government of Gujarat and undertakes installation of pipes and civil contract for irrigation, water distribution, among others. Extent of Consolidation : Full.

Analytical Approach

Acuité has considered the consolidation of business and financial profiles of Vasani Polymers Private Limited and AA Vasani Poly Pipe LLP together known as 'Vasani Group'. The consolidation is due to common management and similar line of business.

Key Rating Drivers

Strengths

• Experienced management and reputed clientele base

VPPL was established by Mr. Pravin Patel and Mr. Mahesh Patel in 2010, and has been engaged in manufacturing of pipes including PVC, SWR, column, casting of various sizes ranging from 20mm to 400mm. The promoters possess experience of 8 years in the same line of business. The company booked revenue of Rs.95.00 crore for the period April to November, 2018 with current order book of Rs.50.00 crore executable in near future.

Acuité believes that the company will continue to benefit from its experienced management which will help the firm to maintain long standing relations with its customers such as Sardar Sarovar Narmada Nigam Limited, Gujarat Water Supply and Sewage Board and Rajkot Irrigation Department, among others and suppliers such as Reliance Industries Limited and Overseas Polymers Private Limited, among others.

• Comfortable financial risk profile

The financial risk profile is comfortable marked by tangible net worth of Rs.17.46 crore as on 31 March, 2018 as against Rs.14.09 crore in the previous year. The net worth includes unsecured loan of Rs.6.31 crore as on 31 March, 2018 from promoters which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing stood comfortable at 0.58 times as on 31 March, 2018 as against 0.74 times in the previous year. The total debt of Rs.10.13 crore includes term loan from bank of Rs.7.24 crore, working capital borrowings of Rs.1.96 crore and unsecured loan of Rs.0.92 crore.

Interest Coverage Ratio (ICR) stood at 2.49 times in FY2018 as against 2.81 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.41 times as on 31 March, 2018 as against 2.07 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.25 times in FY2018 compared to 0.20 times in FY2017.

Going forward, Acuite expects the company to maintain its financial risk profile in the absence of major debt funded capex plan.

• Moderate working capital operations

The operations are moderately working capital intensive marked by high Gross Current Assets (GCA) of 226 days in FY2018 (Provisional) as compared to 179 days in FY2017. The GCA days are mainly dominated by high inventory holding of 63 days in FY2018 compared to 43 days in FY2017. The collection period stood at 168 days in FY2018 compared to 105 days in FY2017. The reason for high debtor days is because 46 percent of sales took place in the last quarter of 2018. Further, working capital is supported by high creditors of 168 days in FY2018. The average cash credit utilisation for the past six months stood at ~75-80percent.

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

Weaknesses

• Susceptible of profitability margins to fluctuations in prices of raw materials

The company's operating margins have shown a fluctuating trend of 3.77 percent in FY2018 as against 3.02 percent in FY2017 and 4.58 percent in FY2016. The firm reported Profit after Tax (PAT) margin of 1.34 percent in FY2018 against 1.05 percent in FY2017 and 1.75 percent in FY2016.

The fluctuation in operating margins is marked by fluctuations in raw material prices. The basic raw materials required by VPPL such as PVC resins (major component of raw material) are crude oil derivatives whose prices are subject to volatility in line with those of global crude oil prices.

• Highly fragmented PVC pipes industry

VPPL operates in a highly competitive PVC pipes industry with much pressure on pricing power. The company is exposed to stiff competition from other integrated players resulting in limited pricing flexibility for the company. Further, there are several organised and unorganised players in the same business.

Outlook: Stable

Acuite believes that the company's outlook will remain 'Stable' and over the medium term from its experienced management, comfortable financial risk profile and moderate working capital operations. The outlook maybe revised to 'Positive' in case of higher than expected growth in revenues while maintaining its working capital. The outlook maybe revised to 'Negative' in case of steep decline in revenues and profitability or higher than envisaged debt funded capex or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	117.83	112.97	96.15
EBITDA	Rs. Cr.	4.44	3.42	4.41
PAT	Rs. Cr.	1.58	1.19	1.68
EBITDA Margin	(%)	3.77	3.02	4.58
PAT Margin	(%)	1.34	1.05	1.75
ROCE	(%)	15.09	13.37	18.25
Total Debt/Tangible Net Worth	Times	0.58	0.74	0.84
PBDIT/Interest	Times	2.49	2.81	2.26
Total Debt/PBDIT	Times	2.02	2.67	1.97
Gross Current Assets (Days)	Days	94	70	65

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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
08-Jan-2018	Term Loan	Long Term	3.20	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	14.00*	ACUITE BB+ / Stable (Assigned)

* includes sublimit of bank guarantee to the extent of Rs.3.50 crore

* includes sublimit of FLC/ILC to the extent of Rs.3.50 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
Term loans	Not Applicable	Not Applicable	Not Applicable	2.35	ACUITE BB+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00*	ACUITE BB+ / Stable (Reaffirmed)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.85	ACUITE BB+ / Stable (Assigned)

* includes sublimit of bank guarantee to the extent of Rs.3.50 crore

* includes sublimit of FLC/ILC to the extent of Rs.3.50 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Grishma Muni Analyst - Rating Operations Tel: 022-49294075 grishma.muni@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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