Press Release

Akshat Plastics Private Limited

September 07, 2021

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.54.06 Cr. (Enhanced from Rs.34.06 Cr.)
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed and Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-' (read as ACUITE triple minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.39.06 crore bank facilities of Akshat Plastics Private Limited (APPL). The outlook is **'Stable'**.

Also, Acuité has assigned the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.15.00 crore bank facilities of Akshat Plastics Private Limited (APPL).

Rationale for rating reaffirmation

The rating reaffirmation takes into account the long track record of operations along with highly experienced promoters, moderately working capital intensive nature of operations, moderate financial risk profile and improving profit margins. The ratings, however, are constrained by susceptibility of profit margins to volatile product prices, foreign exchange fluctuation risk, and presence in highly competitive industry.

About the Company

Established as a proprietorship entity by Mr. Brij Mohan Gupta in 1993 and later converted into a private limited company in 2003, Akshat Plastics Private Limited (APPL) is engaged in the trading of various polymers and plastic raw materials viz. PVC resins, ethylene-vinyl acetate (EVA), foam, PVC paste resins, plasticizers, PVC chemicals, plastic granules, etc., which find application in various sectors viz. PVC pipes, textiles, chemicals, leather products, etc. The products dealt by the company are sold entirely in the domestic market across various cities in Delhi, Haryana and Gujarat. On the other hand, the said products are majorly imported from Korea, Taiwan and Thailand (imports comprised 81.27% of the total purchases in FY21 as against 89.93% in FY20). The company operates through its corporate office and six warehousing facilities located in New Delhi, India.

Analytical Approach

Acuité has considered the standalone business & financial risk profiles of APPL to arrive at the ratings.

Key Rating Drivers

Strengths

- **Long track record of operations and highly experienced promoters**
  APPL possesses a long track record of over three decades of operations in the trading of polymers and plastic raw materials. The overall operations of the company are looked after by the promoters – Mr. Brij Mohan Gupta along with his wife – Mrs. Rekha Gupta, who possess a total experience of over three decades in the trading of polymers and plastic raw materials. Over the years of its operations, the company has established long term relationships with its various customers, suppliers and other stakeholders. Moreover, the long experience of the promoters has helped the company to establish a strong market position as well as scale up its operations.

- **Moderately working capital intensive nature of operations**

The operations of APPL are moderately working capital intensive in nature with moderately high GCA days of 102 days in FY21 as against 81 days in FY20, since the majority of funds of over 45-90 days are blocked in inventory. The inventory holding period elongated significantly from 56 days in FY20 to 90 days in FY21 owing to higher year-end inventory on the back of the second wave of COVID-19 leading to lower turnaround in the month of March 2021. However, the debtors' period and the creditors' period improved marginally from 14 days and 11 days respectively in FY20 to 3 days and 19 days respectively in FY21. Given all of the above, the WC cycle elongated from 59 days in FY20 to 73 days in FY21. APPL's ability to manage its working capital requirements in an efficient way will remain critical from the credit perspective.

- **Moderate financial risk profile**
  The financial risk profile of APPL is moderate marked by relatively low tangible net-worth base and comfortable capital structure & debt coverage indicators. The tangible net-worth base stood relatively low at Rs.20.68 crore as on March 31, 2021 as against Rs.21.71 crore as on March 31, 2020. The capital structure stood comfortable with an overall gearing of 0.49 times as on March 31, 2021 as against 0.31 times as on March 31, 2020, given the low reliance on debt for funding the working capital requirements. The overall gearing deteriorated marginally from 0.31 times as on March 31, 2020 to 0.49 times as on March 31, 2021 owing to increase in debt levels coupled with decrease in the tangible net-worth base, since the unsecured loans worth Rs.11 crore were considered as quasi equity as on March 31, 2020, which were partly withdrawn from the company, and stood at Rs.5.61 crore as on March 31, 2021, which are fully considered as debt as on that date. However, given the significant improvement in the profitability, the debt coverage indicators improved significantly with the interest coverage and DSCR having improved from 2.70 times and 2.29 times respectively in FY20 to 9.93 times and 7.69 times respectively in FY21, whereas the NCA/TD also improved from 0.29 times in FY20 to 0.99 times in FY21.

- **Fluctuating scale of operations albeit improving profit margins**
  The operating income of APPL declined from Rs.146.87 crore in FY20 to Rs.124.21 crore in FY21 owing to the disruptions led by the first wave of the COVID-19 pandemic situation, wherein the net sales declined significantly from Rs.35.75 crore in April & May 2019 to Rs.3.51 crore in April & May 2020, However, the net sales increased significantly from Rs.44.11 crore in April – August 2020 to ~Rs.71 crore in April – August 2021 (till August 19, 2021) owing to the minimal impact of the second wave of COVID-19 than the first wave. the EBITDA margin improved significantly from 2.59% in FY20 to 11.76% in FY21 owing to increase in realizations on EVA, foam and PVC resins, since the company continued procuring the goods from its suppliers at lower prices in the lockdown situation, which later increased after easing of the restrictions post the first wave of COVID-19, after which the markets opened up. Moreover, the proportion of the aforementioned products also increased in the sales mix of FY21 over FY20 (EVA, foam and PVC resins together comprised 90.48% of the net sales in FY21 as against 77% in FY20). Given the significant improvement in the EBITDA margin, the PAT margin also improved significantly from 1.25% in FY20 to 8.02% in FY21, whereas the EBITDA margin stood at 10.92% in April – August 2021 (till August 19, 2021). ACUITE believes that going forward, the said growth will moderate owing to fluctuating prices of the products dealt with, in light of the increasing scale of operations.

Weaknesses

- **Susceptibility of profit margins to volatility in raw material prices**
  The profit margins of APPL are highly susceptible to the volatility in the prices of polymers and plastic raw materials, since the same are directly linked to the crude oil prices which witness high fluctuations depending upon the actions of the major crude oil players like OPEC. Moreover, the domestic demand for the polymers and plastic raw materials is directly linked to the industrial activities in various sectors viz. PVC pipes, textiles, chemicals, leather products, etc. Hence, any slowdown in the said industrial activities may have a bearing on the demand, thereby having an impact on the revenues and in turn on the profit margins & profitability of the company.

- **Foreign exchange fluctuation risk**
  APPL is highly reliant on the imports from Korea, Taiwan, Thailand, etc. for procuring the products, wherein the imports comprised 81.27% of the total purchases in FY21 as against 89.93% in FY20. Moreover, the operations of the company do not serve as a natural hedge, since the company does not cater to the exports market. This makes the company being highly exposed to the foreign exchange fluctuation risk. However, the company undertakes hedging by way of entering into the forward contracts with the bank, by hedging 50% of its foreign exchange exposure. The company posted a foreign exchange gain worth Rs.1.43 crore in FY21 as against Rs.0.57 crore in FY20.

- **Presence in highly competitive & fragmented plastics & polymers trading industry**
  APPL is present in a highly competitive & fragmented plastics & polymers trading industry, wherein a number of small-sized & medium-sized players are engaged in the trading of polymers and plastic raw materials. Moreover, the presence of reputed domestic customers and reputed global suppliers leads to a limited bargaining power by the company with its customers & suppliers, which is evidently reflected from the low profit margins till FY20.

Liquidity Position: Adequate

The gross current asset days stood moderately high at 102 days in FY21 as against 81 days in FY20, since the majority of funds of over 45-90 days are blocked in inventory which elongated significantly from 56 days in FY20 to 90 days in FY21, hence the working capital cycle also elongated from 59 days in FY20 to 73 days in FY21. Given this, the average letter of credit utilization in the last 6 months ended June 2021 stood high at 80-90%. On the other hand, the current ratio stood comfortable at 2.50 times as on March 31, 2021 as against 2.22 times as on March 31, 2020, whereas the net cash accruals stood healthy at Rs.10.04 crore in FY21 as against Rs.1.93 crore in FY20, as against no repayment obligations in those years. Acuité expects the liquidity will remain adequate over the medium term on account of moderate net cash accruals.

Rating Sensitivities

- Lower achievability in the scale of operations than envisaged
- Significant deterioration in the profit margins than envisaged
- Significant deterioration in the liquidity position

Material Covenants

None

Outlook: Stable

Acuité believes that APPL will continue to maintain a 'Stable' outlook over the medium term owing to the established track record of operations coupled with highly experienced promoters in the industry. The outlook may be revised to 'Positive' in case of an expected increase in the scale of operations while maintaining the profitability and efficiently managing the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of an expected deterioration in the overall financial risk profile and the liquidity position.

About the Rated Group - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	124.21	146.87
Profit after Tax (PAT)	Rs. Cr.	9.96	1.84
PAT Margin	(%)	8.02	1.25
Total Debt/Tangible Net Worth	Times	0.49	0.31
PBDIT/Interest	Times	9.93	2.70

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

ICRA, vide its press release dated August 21, 2020, had denoted the rating of APPL as 'ICRA B+/ A4; ISSUER NOT COOPERATING', on account of lack of adequate information required for monitoring of the ratings.

Any other information

Not Applicable

Applicable Criteria

- Trading Entities – https://www.acuite.in/view-rating-criteria-61.htm
- Default Recognition – https://www.acuite.in/view-rating-criteria-52.htm
- Application of 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
11-Sep-2020	Cash Credit	Long Term	4.50	ACUITE BBB-/Stable (Reaffirmed)
	Stand-by Line of Credit	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	28.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	0.56	ACUITE BBB-/Stable (Reaffirmed)
03-Sep-2020	Cash Credit	Long Term	4.50	ACUITE BBB-/Stable (Reaffirmed)
	Stand-by Line of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	28.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.30	ACUITE BBB-/Stable (Assigned)
20-June-2019	Cash Credit	Long Term	4.50	ACUITE BBB-/Stable (Upgraded)
	Letter of Credit	Short Term	23.30	ACUITE A3 (Upgraded)
30-July-2018	Cash Credit	Long Term	4.50	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	23.30	ACUITE A4+/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50 (Enhanced from Rs.4.50 Cr.)	ACUITE BBB-/Stable (Reaffirmed)
State Bank of India	Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	32.00 (Enhanced from Rs.28.00 Cr.)	ACUITE A3 (Reaffirmed)
Citi Bank	Letter of Credit#	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Assigned)
Not Applicable	Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	1.56	ACUITE BBB-/Stable (Reaffirmed)

*Foreign Letter of Credit includes sub-limit of stand-by line of credit to the extent of Rs.23 crore.
#Letter of Credit includes sub-limits of Rs.10 crore for cash credit & WCDL each, Rs.15 crore for sight letter of credit & usance letter of credit each, and Rs.5 crore for bank guarantee.

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research 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.