

Press Release

Kushal Polysacks Private Limited

August 07, 2019

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 72.00 crore
Long Term Rating	ACUITE BB-/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and short term rating of **'ACUITE A4' (read as ACUITE A four)** on Rs.72.00 crore bank facilities of KUSHAL POLYSACKS PRIVATE LIMITED (KPPL). The outlook is **'Stable'**.

KPPL- a kolkata based company was incorporated in 1996 by Mr. Naresh Kumar Agarwalla. Currently, the company is managed by Mr. Naresh Kumar Agarwalla, Mr. Bishnu Kumar Agarwala and Mr. Kushal Agarwal. The company was initially engaged in manufacturing of various types of PP/HDPE products. During 2011, KPPL started operating as a Del Credere Agent of Indian Oil Corporation Limited (IOCL) for Polypropylene granules. The company is engaged in the distribution of these polymer products in West Bengal, Bihar, Jharkhand, Odisha and North-Eastern states. Furthermore, the company has entered into the business of executing dredging projects and undertakes projects mainly from the government of India and the government of Bangladesh.

Analytical Approach

Acuité has considered standalone business and financial risk profile of KPPL to arrive at the rating.

Key Rating Drivers

Strengths

- Long track record of operations in polymer and chemical distribution**

The company, established in 1996, was initially engaged in manufacturing of various types of PP/HDPE products. In 2011, KPPL started operating as a Del Credere Agent of Indian Oil Corporation Limited (IOCL) for PP granules. This has enabled them to develop comfortable relationships with IOCL. KPPL has been awarded the Star DCA player of IOCL pan India.

- Favourable demand outlook for polymers**

With the third largest consumer of polymers in the world, India is expected to grow by 7-8 per cent annually with healthy growth in industries such as clothing, automobiles, polymer-based reinforcing material in construction as well as plastics, paints and coatings for the automotive sector. Going forward, these factors will positively impact the company's revenue profile.

Weaknesses

- Below average financial risk profile**

The company has below average financial risk profile characterised by modest net worth of Rs. 14.90 crore as on 31 March, 2019 (provisional), as against Rs. 12.21 crore in the previous year. The gearing is high at 3.82 times on 31 March, 2019 (provisional), as against 4.23 times in the previous year. The total outside liabilities to total net worth (TOL/TNW) of the company stood high at 5.04 times on 31 March, 2019 (provisional) as against 5.01 times in the previous year, due to high working capital utilisation. The net cash accrual to total debt (NCA/TD) of the company stood at 0.20 times in FY2019 (provisional) as against 0.02 times in FY2018. The interest coverage ratio (ICR) stood at 3.41 times in FY2019 (provisional) as against 1.48 times in FY2018. The increase in ICR is mainly due to increase in the EBIT on account of high closing work in progress (WIP). The debt service coverage ratio (DSCR) of the company stood at 3.08 times in FY2019 (provisional) as against 1.33 times in FY2018.

• High working capital requirements

The company's operations are working capital intensive marked by high gross current asset (GCA) days of 3725 in FY2019 (provisional) as against 2133 in FY2018. The GCA days consist of debtor days of 2554 in FY2019 (provisional) compared to 1930 in FY2018. It also consists of other current assets to the tune of Rs. 12.00 crore, mostly on account of other receivables and recoveries and security deposits. Being a Del Credere agent, the company undertakes considerable risk of realisation from debtors, resulting in high working capital requirements.

Liquidity Position

KPPL's liquidity profile is stretched on account of more than 90 per cent utilisation of their bank facilities. On the other hand, the company has modest net cash accruals as against no maturing debt obligations. The company generated net cash accruals of Rs. 0.68-11.23 crore during the last three years through 2018-19 (provisional), while its maturing debt obligations were minimum in the range of Rs. 0.19-0.32 crore over the same period. The company has maintained cash and bank balance of Rs.1.79 crore as on 31 March, 2019 (provisional). The current ratio of the company stood moderate at 1.05 times as on 31 March, 2019 (provisional) as against 1.03 times in the previous year. Acuite believes that the liquidity of the company will continue to remain stretched over the medium term on account of the high risk of realisation from debtors, resulting in high utilisation of its bank facilities.

Outlook: Stable

Acuite believes that the outlook of the company will remain 'Stable' over the medium term on account of its established track record in the industry. The outlook may be revised to 'Positive' if company is able to improve its financial risk profile along with working capital management. On the contrary, the outlook may be revised to 'Negative' in case of decline in profitability or deterioration of capital structure or extended working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	7.63	10.68	6.92
EBITDA	Rs. Cr.	15.17	1.62	3.46
PAT	Rs. Cr.	10.78	0.80	0.11
EBITDA Margin	(%)	198.68	15.13	50.04
PAT Margin	(%)	141.19	7.53	1.57
ROCE	(%)	25.16	6.39	6.79
Total Debt/Tangible Net Worth	Times	3.82	4.23	3.75
PBDIT/Interest	Times	3.41	1.48	1.24
Total Debt/PBDIT	Times	3.25	11.72	10.93
Gross Current Assets (Days)	Days	3725	2133	3234

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-19.htm>
- Trading entities - <https://www.acuite.in/view-rating-criteria-6.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
23-Aug-2018	Cash credit	Long Term	57.00	ACUITE BB-/Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A4 (Assigned)

Cash Credit Limit (EDFS) limit will have Rs. 54.00 crore for Del Credere Agent Model and Rs. 3.00 crore for Consignment Stockist Model.

Bank Guarantee will be issued only in favour of IOCL

*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	57.00	ACUITE BB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Reaffirmed)

Cash Credit Limit (EDFS) limit will have Rs. 54.00 crore for Del Credere Agent Model and Rs. 3.00 crore for Consignment Stockist Model.

Bank Guarantee will be issued only in favour of IOCL

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About Acuité Ratings & Research:

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