Press Release

Poly Tough Tubes Limited

D-U-N-S® Number: 86-332-4923

March 12, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs.20.00 crore bank facilities of Poly Tough Tubes Limited (PTTL). The outlook is **'Stable'**.

PTTL was incorporated in 1989 for manufacturing of Unplasticized Polyvinyl Chloride (uPVC) Rigid Pipes and has recently diversified into manufacturing of Polyvinyl Chloride (PVC) Pipes of ISI, Non-ISI, Commercial and Casing pipes. PTTL's manufacturing facility is located at Maduranthagam, near Chennai (Tamil Nadu) with an installed capacity of 5000 MTPA. Currently, the operations are managed by its Director, Mr. V. Govind.

Analytical Approach

Acuité has considered the consolidated financial and business risk profile of PTTL and Lotus Roofings Private Limited (LRPL), together referred to as the 'Lotus group'. The consolidation is mainly on account of similarity in the line of business, same management, and various operational and financial synergies between the companies in terms of inter-purchase transactions and shared brand names. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

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

  Lotus group incorporated in 1984 is currently managed by Mr. Vasanadu Govind and Mr. Mool Singh Shekhawat, who have more than two decades of extensive experience in the Plastic Industry. The experience of the Directors has helped the group in establishing healthy relationships with customers and suppliers in the industry throughout the years.

  Acuité believes that the group will continue to benefit from the promoter's established presence in the chemical industry and its improving business risk profile over the medium term.

- **Moderate financial risk profile**

  The financial risk profile of Lotus Group is moderate marked by moderate net worth, healthy debt protection measures and average gearing. The net worth of Lotus Group increased to Rs.25.84 crore as on March 31, 2018 as against Rs.21.45 crore in the previous year on account of retention of profits. Lotus Group has followed a moderately aggressive financial policy in the past, as reflected by peak gearing of around 2.02 times over the last three years through 2016-18. The gearing has increased to 2.02 times on 31 March, 2018 as compared to 1.72 times as on March 31, 2017.

  The Total debt of Rs.52.08 crore as on March 31, 2018 includes term loan from bank of Rs.19.47 crore, unsecured loans by promoters and others of Rs.8.71 crore and working capital borrowing of Rs.23.91 crore. The interest coverage ratio (ICR) stood healthy at 3.02 times in FY2018 as against 2.81 times in FY2017. The operating margins have increased during FY2018 vis-à-vis FY2017 along with improvement in turnover which has resulted in net cash accruals of Rs.8.08 crore in FY2018 from Rs.6.43 crore in FY2017. Debt/EBITDA stood average at 3.45 times as on March 31, 2018 as against 3.08 as on March 31, 2017.

Going forward, Acuité believes that Lotus Group will maintain its financial risk profile over near to medium term on the back of growing scale of operations.

Weaknesses

- **Working capital intensive operations**

  The operations of Lotus Group are working capital intensive marked by Gross Current Asset (GCA) of 214 days in FY2018 as against 195 days in FY2017. This is majorly on account of higher inventory holding period of 121 days in FY2018 as against 116 days in FY2017. The receivables period stood stable at 71 days in FY2018 as compared to 76 days in FY2017. The payables period has gone up to 132 days in FY2018 from 119 days in FY2017. The average bank limit utilisation stood at ~94 percent for the last three months ended December 2018.

  Acuité believes that the ability of Lotus Group to improve its working capital cycle will be a factor of key rating sensitivity.

- **Exposed to fluctuations in the raw material prices**

  Raw material costs comprise ~70 percent of the total costs of Lotus Group. The major raw materials for the group include PVC resins, additives and color agents, the prices of these are volatile in nature making the margins susceptible to volatility in the raw material prices. The Group is importing 60 percent of its PVC requirements; thereby rendering it to the risk associated with foreign exchange fluctuation.

- **Competitive and fragmented industry**

  The plastic polymer industry is highly competitive with several organised as well as unorganised players and low entry barriers, especially in the agricultural segment, which makes players such as PTTL exposed to intense competition. Also, the Group deals with government clients, where the projects are tender based.

Liquidity Position:

Lotus group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.6.08 crore to Rs.8.08 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.1.47 crore - Rs.3.32 crore over the same period. The cash accruals of the group are estimated to remain around Rs.12.74 crore - Rs.15.12 crore during 2019-21, while repayment obligations are estimated to be around Rs.3.86 crore - Rs.4.10 crore. The group maintained unencumbered cash and bank balances of Rs.4.69 crore as on March 31, 2018. The current ratio of the group stands moderate at 1.25 times as on March 31, 2018.

Outlook: Stable

Acuité believes that Lotus Group will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' if the group shows improvement in its financial risk profile and maintains growth in turnover. The outlook may be revised to 'Negative' if the group experiences lower than expected revenue growth or further deterioration in financial risk profile.

About the Group

LRPL is the flagship company of Lotus Group. LRPL has been engaged in trading and manufacture of PVC pipes and sheets since 1984. The installed manufacturing capacity of is 5750 MTPA for plastic sheets and doors and 2400 MTPA for sheets.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	140.08	116.50	95.95
EBITDA	Rs. Cr.	14.69	11.63	9.81
PAT	Rs. Cr.	4.42	2.75	2.19
EBITDA Margin	(%)	10.49	9.98	10.22
PAT Margin	(%)	3.16	2.36	2.28
ROCE	(%)	16.79	16.26	33.33
Total Debt/Tangible Net Worth	Times	2.02	1.72	1.45
PBDIT/Interest	Times	3.02	2.81	2.61
Total Debt/PBDIT	Times	3.45	3.08	2.31
Gross Current Assets (Days)	Days	214	195	164

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Applicable Criteria
• Default Recognition - https://www.acuite.in/criteria-default.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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
• Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

***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	8.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.12	ACUITE BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.88	ACUITE BB / Stable

Contacts:

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Sushmita Murai Analyst - Rating Operations Tel: 022-49294033 sushmita.murai@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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