Press Release

Macro Polymers Private Limited

April 10, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 70.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** to the Rs. 70.00 crore bank facilities of MACRO POLYMERS PRIVATE LIMITED (MPPL). The outlook is **'Stable'**.

MPPL was established as a proprietorship concern in 1962 by Mr. Shirish Parikh and later in 1995, the constitution was changed to private limited company. MPPL is engaged in manufacturing of synthetic resins such as Alkyd Resins, Butylated Melamine Acrylic Resins, Epoxy Resin, and Epoxy Hardner which find application in paints, inks and adhesive industry. The company has two manufacturing facilities located at Odhav and Moraiya with a combined capacity of 60000 MT per annum. The company is ISO 9001:2008, 14001:2004 & 18001:2007 certified and the R&D Centre is recognised by Government of India, Department of Scientific & Industrial Research and Ministry of Science & Technology. MPPL also exports to Middle East, Africa, Asian and South East Asian Countries. Around 35 percent of the revenues are generated through exports and remaining from domestic markets.

Analytical Approach

Acuité has taken consolidated financials of Macro Polymers Private Limited and its three subsidiaries, namely, Macro Polymers UAE, Macro Polymers LLC USA and Macro Polymers Vietnam Co. Ltd. as there are financial and business synergies between these companies. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Comfortable working capital cycle:**
  The working capital cycle of MPPL is comfortable marked by GCA of 147 days in FY2018 (PY: 142 days). The inventory holding period is moderate at 39 days and the debtor days stood at 85 days in FY2018. The unencumbered cash and bank balance stood at Rs.0.64 crore as on 31 March, 2018. The average bank limit utilisation stood at 86.00 percent for the last six months ended December, 2018. Acuité believes that the company will be able to maintain sufficient liquidity over the medium term.

- **Established track record of operations and experienced management:**
  The promoter of the company, Mr. Shirish Parikh has more than four decades of experience in the resins industry. The company has developed healthy relations with customers and suppliers over the years which help in getting repeated orders. Acuité believes that the company will be benefitted over the medium term on the back of established presence in the resins industry for more than four decades.

- **Moderate financial risk profile:**
  The financial risk profile of MPPL is moderate marked by tangible net worth of Rs.37.15 crore as on 31 March, 2018 (PY: Rs.33.54 crore). The gearing increased to 1.92 times as on 31 March, 2018 (PY: 1.63 times) on account of increase in debt levels in FY2018 for the capital expenditure done by the company for enhancement in the capacity levels of the resins. The total debt of Rs.71.30 crore outstanding as on 31 March, 2018 comprises of Rs.28.69 crore secured term loans from the bank, Rs.42.60 crore as working capital borrowings and Rs.0.01 as unsecured loan from the promoter.

  The interest coverage ratio declined to 3.06 times in FY2018 (PY: 3.76 times) on account of increase in debt levels for the capital expenditure done resulting in high interest cost in FY2018 over FY2017.

The DSCR declined to 1.11 times in FY2018 as against 3.12 times in FY2017. The total outside liabilities to tangible net worth stood moderate at 2.97 times as on 31 March, 2018 (PY: 2.33 times). The net cash accruals stood at Rs.7.81 crore in FY2018 as against Rs.6.92 crore in FY2017. The net cash accruals are expected to increase over the medium term on account of increase in scale of operations coupled with increase in utilisation of the enhanced capacity.

- **Continuous improvement in operating income with moderate profitability**

The revenues of the company are growing continuously marked by operating income of Rs.192.98 crore in FY2018 as against Rs.157.38 crore in FY2017. Further, the company has registered revenues of Rs.140.00 crore for the period April to December, 2018 (Provisional). The revenues are expected to grow over the near to medium term on account of expansion in the installed capacity to 6000 MTPD (Previous capacity 3000 MTPD), which was completed in FY2018. The operating profitability declined to 6.78 percent in FY2018 (PY: 7.73 percent) on account of significant increase in the raw material cost (raw materials being petroleum based products). However, the net profitability improved to 2.00 percent in FY2018 (PY: 1.94 percent). The profitability is expected to grow on account of high value added products in the total revenue mix in FY2019 and optimum utilisation levels from the new capacity over the medium term.

Weaknesses

- **Susceptibility of the profitability to volatility in the raw material prices**

The profitability margins of MPPL remains susceptible to volatility in the raw material prices (raw materials being petroleum based products), the prices of which are highly volatile in nature. Any adverse fluctuation in raw material price may impact the profitability of the company. Further, the company is exposed to foreign exchange fluctuation risk as the company generates 40 percent of the revenues through exports. However, the risk is partly mitigated to the extent of imports in foreign currency.

- **Highly competitive and fragmented industry**

The resins industry is highly competitive and fragmented marked by presence of many organised and unorganised players in this industry, thus putting pressure on the profitability margins of the company.

Liquidity Position:

MPPL has moderate liquidity marked by adequate net cash accruals to meet its maturing debt obligations. MPPL generated cash accruals of Rs.9.78 to 7.81 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.6.98-6.66 crore over the same period. The cash accruals of the company are estimated to remain around Rs.8.49 – 13.57 crore during 2019-21 while its repayment obligation is estimated to be around Rs. 6.50 crore.

The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 147 in FY 2018. This has led to lower reliance on working capital borrowings, the cash credit limit remains utilized at 86 percent during the last six months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.0.64 crore as on March 31, 2018. MPPL is likely to incur capex of ~Rs.2.00 crore annually over the medium term. Acuité believes that the liquidity of the group is likely to remain moderate on account of adequate cash accrual vis-à-vis its repayment obligations over the medium term.

Outlook: Stable

Acuité believes the outlook on the MPPL's rated facilities will remain 'Stable' on account of the company's established presence in the resins industry. The outlook may be revised to 'Positive' if the company achieves a sustained growth in revenues, profit margins and improves its capital structure. The outlook may be revised to 'Negative' in case the company registers significant decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	192.98	157.38	130.31
EBITDA	Rs. Cr.	13.08	12.16	13.74
PAT	Rs. Cr.	3.86	3.06	5.93
EBITDA Margin	(%)	6.78	7.73	10.54
PAT Margin	(%)	2.00	1.94	4.55
ROCE	(%)	9.32	11.92	37.72
Total Debt/Tangible Net Worth	Times	1.92	1.63	0.71
PBDIT/Interest	Times	3.06	3.76	10.43
Total Debt/PBDIT	Times	5.42	4.43	1.59
Gross Current Assets (Days)	Days	147	144	132

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-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
- 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	21.50*	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BBB- / Stable
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/ Stable

**Cash Credit includes sublimit of Rs. 14.00 crores as Letter of credit and Rs. 5.00 crore as bank guarantee, EPC/FBD/PCFC/FBP to the extent of Rs. 12.50 crore.*

Contacts

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About Acuité Ratings & Research:
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