Acuite
RATINGS & RESEARCH

Press Release

Lila Polymers Private Limited

May 09, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 63.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short-term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs.63.00 crore bank facilities of LILA POLYMERS PRIVATE LIMITED (LPPL). The outlook is **'Stable'**.

Mumbai based LPPL was incorporated in 2002 by Mr. Jagdish Tanna. The company is a trader and distributor of polymer and petrochemical products. LPPL is an exclusive distributor for Dow Chemical's International & Du Pont in India. Further, it is a Del Credere agent of ONGC – OPAL for Western India.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the LPPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established market position**
  The management of LPPL have experience of more than two decades in the similar line of business. This has helped the company to develop strong relationship with its suppliers and customers. LPPL is an exclusive distributor for Dow Chemical's International & Du Pont in India. In 2017, LPPL has become Del Credere Agent of ONGC Petro Additions Limited (OPAL). LPPL has a client base of over 700.

  Acuité believes LPPL will be able to sustain its existing business risk profile on the back of experienced management and its established market position.

- **Efficient working capital management and adequate liquidity**
  LPPL's liquidity is marked by low GCA days of 60 in FY2018 as against 75 in FY2017. Low GCA days is marked by inventory days of 12 and receivable days of 27. Bank limits are utilized to the extent of 57 per cent only. The company also maintains unencumbered cash and bank balance of Rs.12-13 crores over FY16-FY18 apart from liquid investments.

- **Moderate financial risk profile**
  LPPL's financial risk profile is marked by moderate tangible net worth, debt protection measures and gearing. The net worth of the company stood at Rs.12.25 crores in FY2018 as against Rs.10.77 crores in FY2017. The increase in net worth is on account of accretion to reserves. The company has followed an average leverage policy. The gearing has improved to 1.45 times in FY2018 from 2.64 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.37 times as on 31 March, 2018 as against 3.92 times as on 31 March, 2017 and is estimated to remain around 2.5-3 times over the medium term on the back of absence of any debt funded capex plans. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) improved to 2.03 times in FY2018 against 1.50 times in FY2017 due to lower interest cost and higher profitability. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on March 31, 2018 as against 0.04 times as on March 31, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.70 times for FY2018 as against 1.37 times in FY2017.

  Acuité believes that the financial risk profile of LPPL will continue to remain moderate over the medium term on account of its improving financial risk profile and conservative leverage policy.

Weaknesses

- **Uneven revenue trend**
  Revenues of the company depict uneven trend. Revenues in FY16 stood at Rs.291 crores that declined to Rs.246 crores in FY17 and again subsequently rose to Rs.311 crores in FY18. In FY19, revenues are expected to remain around Rs.284 crores. Removal of loss making products had led to fall in revenues in FY17 and FY19.

- **Low profitability margins**
  Operating margins stood low at 1-1.3% over FY16-FY18, constrained by the trading nature of business and high competition. Consequently, PAT margins stood low at 0.48 per cent in FY2018 against 0.31 per cent in FY2017.

- **Highly competitive and fragmented industry**
  The polymer industry is highly competitive and fragmented marked by presence of many organized and unorganized players in this industry, thus putting pressure on the profitability margins of the company.

Liquidity Position:

Liquidity of LPPL is marked by low net cash accruals of Rs.1-2 crore during the last two years. The cash accruals of the company are expected to improve and remain in the range of Rs.2-4 crore with no major repayment obligations, the company's incremental working capital requirements are estimated to remain in the range of Rs.3-4 crore over the medium term. The company's working capital is efficiently managed as evident by gross current asset (GCA) days of 60 in FY2018. The cash credit limit in the company remained utilised at around 57 percent during the last 6 months ended March, 2019. The company maintains unencumbered cash and bank balances of Rs.12.33 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.31 times as on March 31, 2018. Acuité believes that the liquidity of the company will remain comfortable over near to medium term on account of increasing net cash accruals, no repayment obligations and absence of any debt funded capex plans.

Outlook: Stable

Acuité believes that LPPL will maintain a stable outlook owing to the extensive experience of its promoters and strong relationship with its suppliers and customers. The outlook may be revised to 'Positive' if the company achieves significant improvement in revenues and profitability. Conversely, the outlook may be revised to 'Negative' if LPPL posts significant decline in revenues and profitability, takes larger than expected debt to fund its working capital requirements or elongation in its working capital cycle, leading to deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	311.45	246.00	291.26
EBITDA	Rs. Cr.	3.72	3.16	3.08
PAT	Rs. Cr.	1.49	0.77	0.56
EBITDA Margin	(%)	1.20	1.28	1.06
PAT Margin	(%)	0.48	0.31	0.19
ROCE	(%)	13.94	11.51	29.94
Total Debt/Tangible Net Worth	Times	1.45	2.64	1.86
PBDIT/Interest	Times	2.03	1.50	1.41
Total Debt/PBDIT	Times	1.70	1.37	1.29
Gross Current Assets (Days)	Days	60	75	55

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

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition -https://www.acuite.in/criteria-default.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)
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	2.00	ACUITE BBB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Rishabh Mundada Analyst - Rating Operations Tel: 022-49294051 rishabh.mundada@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
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