

Press Release

Lila Polymers Private Limited

July 16, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.96.00crore (Enhanced from Rs.63.00crore)
Long Term Rating	ACUITE BBB-/ Outlook: Negative (Reaffirmed and Outlook Revised)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 63.00 crore bank facilities of Lila Polymers Private Limited (LPPL). The outlook is revised to '**Negative**' from '**Stable**'.

Also, Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 33.00 crore bank facilities of LPPL. The outlook is '**Negative**'.

Incorporated in the year 2002, LPPL is a Mumbai based company. The company is an International Trading and local distribution house for polymers and petrochemical products. The CMD of the company- Mr.Jagdish Ranjit Tanna has been engaged with the company since its inception and has an experience of more than three decades in the industry. The company is an exclusive distributor for Dow Chemical's International, Du Pont and Supreme Petrochemicals in India. Further, the company is also a Del Credere agent for ONGC-OPAL.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

LPPL was incorporated in the year 2002. The key promoter of the company Mr.Jagdish Ranjit Tanna has been associated with the company since its inception and has an experience of more than three decades in the aforementioned industry and is ably assisted by an experienced second line of management. The extensive experience of the promoters has helped the company to maintain a healthy relationship with its customers and suppliers. On the back of stable and repeated orders from its customer, the operating income of the company has increased by around 6.49 percent to Rs.287.78crore (Prov.) in FY2020 as against to Rs.270.24crores in FY2019.

Acuite believes that the company will benefit from the extensive experience of the management.

- **Healthy Relation with reputed clientele**

LPPL's clientele base is more than 700 with a majority of them being catered in western and central India. The key customers of the company include names like Shakun Polymers Private Limited, IDMC Limited, Aspire Incorporation amongst others. LPPL is an exclusive distributor for Dow Chemical's International, Du Pont and Supreme Petrochemicals. Further, the company is also a Del Credere agent for ONGC-OPAL. Besides this, the other key suppliers include names like Ocean Plastic, Formosa Plastic Corporation, etc. to name a few.

Acuite believes that even though the industry is highly competitive and fragmented in nature marked by the presence of many organized and unorganized players, but company's healthy relationship with its clientele along with established market position will mitigate any such risk.

Weaknesses

- **Working capital intensive nature of operations**

LPPL's working capital operation is intensive as is reflected by its Gross Current Asset (GCA) days of around 119 days (Prov.) in FY2020 as against 84 days in FY2019. The company has maintained an inventory holding period 39 days (Prov.) as on 31 March, 2020 as against 19 days as on 31 March, 2019. This is due to the delay in the arrival of the stocks in the month of March, 2020, which was supposed to be arrived earlier prior to the month it arrived. This happened due to the logistical issue faced by the company with respect to COVID-19 pandemic lockdown in the country from where the materials were supposed to be delivered. LPPL has receivable days of 61 (Prov.) as on 31 March, 2020 as against 51 days as on 31 March, 2019. Irregularity in payment from the customer along with longer payment terms has resulted in accumulated receivables of Rs.47.66crore (Prov.) as on 31 March, 2020. On the other hand, the company has a credit payment of 65 days (Prov.) as on 31 March, 2020 as against 53 days as on 31 March, 2020 which has supported the company to some extent. Acuite expects the working capital management to remain intensive over the medium term on account of high inventory and stretched receivables.

- **Average Financial Risk Profile**

LPPL's financial risk profile is average, marked by moderate net worth, modest gearing and moderate debt protection metrics. LPPL's net worth is moderately estimated at around Rs.16.36crore (Prov.) as on March 31, 2020. However, the net worth levels have seen improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period. As on March 31, 2020, the gearing and total outside liabilities to tangible net worth (TOL/TNW) levels stand at 2.13 times (Prov.) and 5.51 times (Prov.) respectively as against 1.35 times and 4.00 times respectively in FY2019. As the company faced logistical issue in the month of December 2019 with respect to Covid-19, the company had to pay an additional amount towards carrying and forwarding charges for which the company witnessed a sharp decline in the EBITDA in absolute terms from Rs.4.05crore in FY2019 to Rs.2.24crore (Prov.) in FY2020. This resulted to a decline in the operating margin from 1.50 percent in FY2019 to 0.78 percent (Prov.) in FY2020. Subsequently, the PAT margin has also declined from 0.32 percent in FY2019 to 0.27 percent (Prov.) in FY2020.

The company, on the other hand, generated cash accruals of Rs.0.99crore (Prov.) in FY2020 as against Rs.1.14crore in FY2019. LPPL's cash accruals over the next two years through 2022 are estimated to remain in the range of Rs.1.30crore to Rs.2.00crore. The gearing, however, is expected to be low at around 1.83 times as on March 31, 2021 on back of absence of any major debt-funded capex plan. The profitability levels, coupled with moderate debt levels, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 was moderate at 0.03 times (Prov.) and 1.62 times (Prov.), respectively.

Acuite believes the financial risk profile will be impacted over the medium term due to pressure on operating performance amidst the ongoing COVID situation.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Improvement in the working capital management thereby improving the overall financial risk profile
- Stretch in working capital cycle leading to deterioration in liquidity

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity, marked by modest net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.0.99crore (Prov.) in FY2020 as against no maturing debt obligations during the same period. The cash accrual of the company is estimated to remain around Rs.1.30crore to Rs.2.00crore during 2021-23 against no repayment obligations during the same period. The company's working capital operations are intensive marked by the Gross Current Asset (GCA) days of 119 days (Prov.) for FY2020 as against 84 days in FY2019. The average bank limit utilization stood low at around 13.00 per cent for six months ended May, 2020. The company maintains unencumbered cash and bank balances of Rs.5.72crore (Prov.) as on 31 March 2020. Further the company has a liquid investment of Rs.11.00crores (Prov.) as on March 31, 2020. The current ratio stands at 1.16 times (Prov.) as on 31 March 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate net cash accruals to no debt repayments over the medium term.

Outlook: Negative

Acuite believes that the outlook on LPPL will remain 'Negative' over the medium term due to the ongoing COVID situation and continued pressure on the business risk profile of the company. The rating may be downgraded in case of a sustained decline in the revenue profile leading to low profitability and deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable', in case of improvement in the profitability, working capital cycle and lower reliance on external borrowings which will help to improve leverage indicators.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	287.78	270.24
PAT	Rs. Cr.	0.77	0.87
PAT Margin	(%)	0.27	0.32
Total Debt/Tangible Net Worth	Times	2.13	1.35
PBDIT/Interest	Times	1.62	1.59

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

CRISIL, vide its press release dated July 15, 2019 has denoted the rating of Lila Polymers Private Limited as 'CRISIL BB+/Stable/A4+; ISSUER NOT-COOPERATING; Withdrawn' on account of best available information.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Trading Sector - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09 May, 2019	Cash Credit	Long Term	2.00	ACUITE BBB- /Stable (Assigned)
	Cash Credit	Long Term	10.50	ACUITE BBB- /Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB- /Stable (Assigned)
	Letter of Credit	Short Term	26.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)

*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- /Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB- /Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- /Negative (Reaffirmed)

Dealer Financing/Channel Financing	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB-/Negative (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	02.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Assigned)

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Kumar Abhisek Ratings Analyst - Rating Operations Tel: 011-49731308 kumar.abhisek@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.