

Press Release

Lila Polymers Private Limited

July 15, 2021



Rating Upgraded, Assigned and Outlook Revised

Total Bank Facilities Rated*	Rs.96.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Upgraded from ACUITE BBB-; Outlook revised from 'Negative')
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.96.00 crore bank facilities of Lila Polymers Pvt. Ltd. (LPPL). The outlook has revised to '**Stable**' from '**Negative**'.

The upgradation in ratings and revision in outlook are on account of improvement in operating performance of LPPL in FY2021 (Provisional), resulting in improvement in financial risk profile and liquidity position of the company. Despite Covid-19-led challenges, LPPL reported 15.39per cent increase in revenue to Rs.330.89 crore in FY2021 (Provisional). The company's EBITDA margin also expanded sharply to 4.85per cent in FY2021 (Provisional) from 1.14per cent in FY2020. A sharp revival in demand, higher prices and improved product mix benefitted the company. Consequently, LPPL's financial risk profile also improved marked by improvement in gearing position and debt protection metrics. While debt to equity ratio improved to 1.30 times as on March 31, 2021 (Provisional) from 2.61 times as on March 31, 2020, interest coverage ratio increased to 9.70 times from FY2021 (Provisional) from 1.69 times a year back. The company also witnessed an improvement in working capital cycle with GCA days standing at 81 for FY2021 (Provisional) compared to 114 for FY2020.

About the Company

Incorporated in 2002, LPPL is a Mumbai-based international trading and local distribution house for polymers and petrochemical products. The CMD of the company, Mr. Jagdish 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 in western India and for Du Pont in Pan India. Further, the company is also a Del Credere agent for ONGC-OPAL.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of LPPL to arrive at the 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 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 promoter has helped the company to maintain a healthy relationship with its customers and suppliers. LPPL is an exclusive distributor for Dow Chemical's International in western India and for Du Pont in Pan India. Further, the company is also a Del Credere agent for ONGC-OPAL.

In FY2021 (Provisional), despite Covid-19-led challenges, revenue of the company increased by 15.39 per cent to Rs.330.89 crore. The company's revenue in FY2020 was Rs.286.76 crores. Further, the company's operating margin too expanded sharply to 4.85per cent in FY2021 (Provisional) from 1.14per cent in FY2020. This was led by higher realization.

Acuité believes that the company would continue to benefit from the extensive experience of the management going ahead. The company's revenue is estimated to grow at a CAGR of ~10 per cent during FY2022 to FY2024. Further, improvement in product mix with higher revenue share of high-margin specialty products would support operating profitability. Though, going ahead, EBITDA margin would come down from FY2021 level, it would be higher than historical level of 1-1.5 per cent.

- **Comfortable financial risk profile**

LPPL has a comfortable financial risk profile marked by modest but rising net worth, moderate gearing position and comfortable debt protection metrics. The company's net worth, as on March 31, 2021 (Provisional) increased to Rs.27.10 crore from Rs.14.36 crore as on March 31, 2020.

Gearing position (debt to equity ratio) of the company too improved to 1.30 times as on March 31, 2021 (Provisional) from 2.61 times a year back. This was on the back of higher net worth and lower debt level. The company's total debt as on March 31, 2021 (Provisional) stood at Rs.35.20 crore, comprising long-term debt of Rs.1.44 crore, unsecured loans from directors/related parties of Rs.2.09 crore and short-term debt of Rs.31.68 crore. Total outside liabilities to tangible net worth ratio (TOL/TNW) improved sharply to 2.59 times as on March 31, 2021 (Provisional) from 6.28 times as on March 31, 2020. Acuite believes that with an expected improvement in net worth, the company's gearing level would continue to improve and would march below unity over a medium term, provided no significant debt-funded capex.

With a sharp improvement in operating profits, LPPL's interest coverage ratio increased to 9.70 times for FY2021 (Provisional) from 1.69 times for FY2020. Debt service coverage ratio (DSCR) too improved to 5.40 times for FY2021 (Provisional) from 1.43 times for FY2020. Acuite estimates the company's debt protection metrics to deteriorate going ahead but would remain at a comfortable level with interest coverage ratio standing at 6 to 6.7 times and DSCR at 4 to 4.5 times during FY2022 to FY2024.

Weaknesses

- **Intensive working capital nature of operations**

LPPL has intensive working capital operations marked by average gross current asset (GCA) days of 92 during the last three financial years ended March 31, 2021 (Provisional). Although, for FY2021 (Provisional), GCA days improved to 81 from 114 for FY2020. Both, inventory level and collection period improved in FY2021 (Provisional) on the back of a sharp revival in demand. Inventory days and receivable days stood at 28 and 39, respectively for FY2021 (Provisional) compared to 41 and 57 for FY2020. Creditor days, however, fell to 37 for FY2021 (Provisional) from 69 a year back. Average bank limit utilization during the six months through May 2021 stood at ~69 per cent. Acuite believes LPPL's GCA days would remain the rage of 83-100 over a medium term.

- **Competitive intensity and moderately fragmented industry**

The polymer industry is partly fragmented and the intensity of competition is high. This impacts pricing power and so the operating margin of players.

Rating Sensitivities

- Sustainable improvement in operating margin while scaling up of business
- Elongation of working capital cycle

Material Covenants

Increase in unsecured loans to Rs.4.60 crore in FY2021 and no repayment of unsecured loan.

Liquidity Position – Adequate

LPPL has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.12.35 crore in FY2021 (provisional) compared to debt repayment obligations of Rs.0.84 crore. The company's current ratio also improved to 1.38 times as on March 31, 2021 (Provisional) from 1.17 times as on March 31, 2020. Average bank limit utilization for the six months through May 2021 stood at ~69 per cent.

Going ahead, LPPL is expected to generate cash accruals of Rs.8.16 crore to Rs.9.88 crore during FY2022 to FY2024 and debt repayment obligation is estimated at Rs.0.36 crore in each year during FY2022 to FY2024. Acuite believes that LPPL's liquidity position would remain adequate in the medium term with

sufficient net cash accruals against no significant debt repayment obligations.

Outlook: Stable

Acuité believes that LPPL would maintain 'Stable' outlook on the back of experienced management with long track record of operations and improvement in operating margin led by improved product mix. The outlook may be revised to 'Positive' in case the company reports better than expected revenue and improvement in operating margin. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue and operating margin, thereby hurting its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	330.89	286.76
PAT	Rs. Cr.	12.23	1.23
PAT Margin	(%)	3.70	0.43
Total Debt/Tangible Net Worth	Times	1.30	2.61
PBDIT/Interest	Times	9.70	1.69

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities -<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 Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Jul-2020	Cash Credit	Long Term	2.00	ACUITE BBB- /Negative (Reaffirmed; Outlook Revised)
	Cash Credit	Long Term	10.50	ACUITE BBB- /Negative (Reaffirmed; Outlook Revised)
	Cash Credit	Long Term	2.00	ACUITE BBB- /Negative (Reaffirmed; Outlook Revised)
	Channel Financing	Long Term	18.00	ACUITE BBB- /Negative (Assigned)
	Letter of Credit	Short Term	26.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	16.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A3

				(Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)
9-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/Stable (Upgraded; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB/Stable (Upgraded; Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Upgraded; Outlook Revised)
Channel Financing	Not Available	Not Available	Not Available	13.00 (Reduced from Rs.18.00 crore)	ACUITE BBB/Stable (Upgraded; Outlook Revised)
Proposed Bank Facility	Not Available	Not Available	Not Available	5.00	ACUITE BBB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A3+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00 (Reduced from Rs.15.00 crore)	ACUITE A3+ (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ (Assigned)

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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.

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