

## Press Release

Lila Polymers Private Limited

October 04, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.00	-	ACUITE A3+   Assigned
Bank Loan Ratings	32.50	ACUITE BBB   Stable   Reaffirmed	-
Bank Loan Ratings	63.50	-	ACUITE A3+   Reaffirmed
Bank Loan Ratings	7.00	ACUITE BBB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	104.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating at '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 96.00 crore bank facilities of Lila Polymers Private Limited (LPPPL). The outlook is 'Stable'.

Further, Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 8.00 crore bank facilities of LPPL. The outlook is 'Stable'.

### Rationale for reaffirmation and assignment

The rating reaffirmation factors improvement in revenue on the back of favorable prices and product diversification enabling the company to improve its overall profitability. The revenue recorded a CAGR of 19 percent through FY2020-22 and the operating margins improved to 3.12 percent in FY2022 (provisional) against 1.14 percent in FY2020. Further, the rating also factors the improvement in the financial risk profile marked by debt to equity of 0.24 times as on March 31, 2022 (Provisional) against 1.05 times as on March 31, 2020. The rating also factors LPPL long established relationship with its reputed suppliers including Dow chemicals, Du Pont, Sabic Asia and Supreme Petrochemicals.

However, the rating remains constrained due to moderately working capital intensive nature of business marked by gross current asset days of 65 in FY2022 (provisional) against 114 in FY2020. In addition, the operating margins going forward are expected to be remain at 2-2.5 percent considering the low value added nature of business. Besides, susceptibility of profit margins due to volatility in raw material prices and fluctuations in foreign exchange rates further imparts negative bias to the rating.

## 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 and Consignment Stockiest 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. and suppliers. LPPL is an exclusive distributor for Dow Chemical's International in western India and for Du Pont in Pan India, Sabic Asia in the western region and Supreme Petrochemicals. Further, the company is also a Del Credere agent and Consignment Stockiest for ONGC-OPAL.

The extensive experience of the promoter has helped the company to maintain a healthy relationship with its customers

- **Improvement in revenue and profitability:**

The revenue of the company improved from Rs. 329.15 Cr in FY2021 to Rs. 486.79 Cr. The increase is wholly attributable to increase in prices. The average selling price increased from Rs. 1,38,635/MT in FY2021 to 1,77,975/MT in FY2022. However, the quantity sold has declined from 26,485 MTS in FY2021 to 25,037 MTS in FY2022 majorly due to reduction in PVC sales quantity from 10,549 MT in FY2021 to 5,094 MT in FY2022.

Nonetheless, the operating margins improved to 3.12 percent against an average of 1.5 percent in the pre covid era. The increase is on account of the gradual change in the product portfolio, LPPL is increasingly dealing in niche polymer packaging products including Elite, Dowlex, Affinity, Dupont against earlier PVC. The change in product profile enables the company earn an operating margin in the range of 2-3 percent against traditional polymer product which yields around 1.5 percent. Additionally, the long term agreements with suppliers and bulk purchases enable the company earn rebates and improve profitability. The average procurement quantity per order increased to 500 MT in FY2022 and FY2021 against 200 MT in earlier years.

Also, the company earned Rs. 3.60 Cr as commission from OPAL against Rs. 1.75 Cr in FY2021. The company earns Del-credere agent commission at the rate of Rs. 0.40 per kg and consignment stockiest commission of Rs. 0.50 per kg. LPPL in FY2022 sold 53500 MT against 42500 MT in FY2021.

- **Moderate financial risk profile:**

The financial risk profile of the company is moderate marked by moderate net worth, low debt and healthy coverage indicators. The net worth of the company stood at Rs. 38.86 Cr as on March 31, 2022 (Provisional) against Rs. 25.44 Cr as on March 31, 2021. The increase in net worth is attributable healthy accretion to reserves. The company earned a net profit of Rs. 11.82 Cr in FY2022 (Provisional). The aggregate debt of the company stood at 9.14 Cr as on March 31, 2022 (Provisional) against Rs. 12.96 Cr as on March 31, 2021. The company has repaid long term debt of Rs. 1.47 Cr and unsecured loan of Rs. 1.65 Cr. LPPL follows a conservative leverage policy marked by debt to equity of 0.24 times as on March 31, 2022 (Provisional) and peak gearing of 1.05 times as on March 31, 2020. Further, the operating margins of the company ensure adequate coverage indicators marked by interest coverage

(ICR) and debt service coverage ratio (DSCR) of 13.76 times and 10.09 times in FY2022 (Provisional).

### Weaknesses

- **Profit margins are susceptible to raw material price fluctuations and volatility in foreign exchange fluctuations:**

LPPL's raw materials constitute around 95 percent of its total cost, and the raw material prices are volatile in nature, given the linkages to crude prices. While LPPL obtains new orders basis the expected prices of the polyethylene granules, any substantial movement in the raw material prices could impact the operating margins. The company also majorly imports its requirement of polyethylene granules, and thus is susceptible to forex fluctuations as well. However, the forex fluctuation risk is mitigated by way of a forward cover to hedge the exposure in foreign currency.

- **Customer concentration risk:**

The company derives ~20% of the total revenue from top 5 customers. The top 5 customers include Shakun Polymers Pvt Ltd, Kriti Industries (India) Ltd, Idmc Ltd, Propex Furnishing Solutions Inc and Aspire Polytrade Pvt Ltd. The company derives 97 % of its revenue from domestic sales. The revenue of the company will be adversely impacted incase of reduced order quantity from major customer. However, the risk of bad debt is mitigated since the receivables of Rs. 38.00 Cr (excluding OPAL receivables) as on March 31, 2022 are fully insured.

- **Intense competition due to fragmented industry:**

LPPL operates in an industry which is exposed to intense competition from organized and unorganized players due to fragmented nature of the industry and low entry barriers. Though, the risk is mitigated to some extent by way entering into long term agreements with suppliers (i.e. petrochemical companies) resulting into efficient bargaining power ensuring stability in margins and constant adequate supply of products.

### Rating Sensitivities

- Stretch in the working capital cycle days leading to increased dependence on external borrowings thereby deterioration in the financial risk profile
- Maintaining operating margins while improving revenue.
- Inability to renew long term agreements with suppliers.

### Material covenants

None.

### Liquidity: Adequate

The liquidity of the company is adequate marked by net cash accruals (NCA) in the range of 1.47 Cr to 11.94 Cr against no repayment obligations. Going forward the NCA is expected to be around 7.5-8 Cr in FY2023 and FY2024. Further, the low WC cycle days at 4 in FY2022 (provisional) has resulted into reduced dependence on fund based facilities. However, the fund and non-fund based limit utilization together stood at 77 percent as on August 2022. The company has unencumbered cash balance of Rs. 5.17 Cr as on March 31, 2022 (provisional) and current ratio stood at 1.37 times.

### 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 growth in revenue while maintaining operating margins. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue growth and operating margins, thereby adversely impacting LPPL's financial risk profile and liquidity.

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	486.79	329.15
PAT	Rs. Cr.	11.82	10.58
PAT Margin	(%)	2.43	3.21
Total Debt/Tangible Net Worth	Times	0.24	0.51
PBDIT/Interest	Times	13.76	6.04

### 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-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jul 2021	Cash Credit	Long Term	2.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Negative)
	Channel Financing	Long Term	13.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Negative)
	Cash Credit	Long Term	2.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Negative)
	Letter of Credit	Short Term	4.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	16.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee	Short Term	7.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Bank Facility	Short Term	8.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	26.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB   Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	10.50	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Negative)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Channel Financing	Long Term	18.00	ACUITE BBB-   Negative (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB-   Negative (Reaffirmed)

16 Jul 2020	Letter of Credit	Short Term	26.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB-   Negative (Reaffirmed)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE BBB-   Negative (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)
09 May 2019	Letter of Credit	Short Term	16.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	26.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB-   Stable (Assigned)
		Long		
	Cash Credit	Term	10.50	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3+   Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+   Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB   Stable   Reaffirmed
DBS Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB   Stable   Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB   Stable   Assigned
State Bank of India	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+   Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+   Reaffirmed
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3+   Reaffirmed
DBS Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+   Reaffirmed

**Canara Bank:** Letter of credit (LC) includes Bank Guarantee (BG) as sublimit.

**Indusind Bank Limited:** Cash credit (CC) includes working capital demand loan (WC DL), Sales Bill Discounting (SBD), Purchase Bill Discounting (PBD), LC and Buyer's Credit (BC) as sublimit and LC includes BC, Stand by letter of credit (SBLC) and SBD of Rs. 5.00 Cr as sublimit.

**Yes Bank Limited:** BG (performance) includes BG (finance), SBLC, LC (sight), LC (usance) as sublimit and CC includes WC DL, BG (performance), BG (finance), SBLC, C (sight), LC (usance) as sublimit.

**DBS Bank Limited:** Multiline comprising of CC/OD/WC DL to the extent of Rs. 2.00 Cr, LC/SBLC to the extent of Rs. 20.00 Cr and Account payable financing (APF)/BG to the extent of Rs. 18.00 Cr.



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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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