

Press Release

Polymatech Electronics Private Limited

March 24, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) to the Rs.35.00 crore bank facilities of Polymatech Electronics Private Limited (Polymatech). The outlook is '**Stable**'.

Polymatech is a Japan based company, formed an Indian Subsidiary Company M/s. Polymatech Electronics Private Limited in 2007 with shareholding pattern of M/s. Polymatech Company Limited, Japan holding 52% share and M/s. Polymatech (Malaysia) holding 48% shares respectively. The Company was incorporated for manufacture and supply of keypads for various mobile brands. However, the Company could not sustain operations stopped production since 2012. Pursuant to share purchase agreement during FY2018 the assets of Polymatech are transferred to the new Shareholders Mr. Nandam Eswara Rao and Mrs. N Uma.

Now the company is in the process of setting up a new manufacturing unit for manufacturing Light Emitting Diode (LED) and Luminaries at SIPCOT Hi-Tech SEZ at Oregadam Kancheepuram Tamilnadu. The company expected to commence mass production from April 2020 with total manufacturing capacity of about 19 million pieces per annum.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of Polymatech to arrive at the rating.

Key Rating Drivers

Strengths

- **Technically qualified and experienced promoter**

The promoter Mr. Nandam Eswara Rao is an engineering graduate and has experience of over two decades in various business verticals. His knowledge base and strong technical support from another director Mr. Hidenobu Hitotsumatsu (Japan) having more than 35 Years of experience in LED Manufacturing business. The company is expecting orders from reputed market players such as Dialight, Honda, Toyota among others.

Acuité believes promoters strong understanding of the market dynamics and experienced management will benefit the company going forward resulting in steady growth in the scale of operations.

Weaknesses

- **Nascent stage of operations and exposure to project risks**

The company is setting up new unit to Manufacture of LED & LED Luminaries at a project cost of around Rs.58 crore; the same is proposed to be funded out of term loan of Rs.25 crore, and rest through equity and unsecured loan. The promoters' have invested on purchase of land, machinery and other costs of about Rs.24.55 Crs till January 2020 and bank has sanctioned Rs.15.00 crores and further Rs.7.00 crore is under sanctioned stage. Polymatech is still in the project phase and is expected to start operations in FY2021. So far, plant trial production is completed in December 2019 and planning to go for commercial production from April 2020. Further its financial risk profile is constrained by negative networth and expected large project debt. Debt protection metrics are expected to remain subdued amid modest cash accruals and large debt during initial phase.

Acuité believes that ability of the company to timely stabilize its operations in order to service its debt obligation in timely manner will be critical.

- **High working capital intensity**

Polymatech's operations are working capital intensive given to its new debtor and required to hold adequate inventory due to nascent stage of operations.

The company's ability to profitably scale up the operations going forward along with increasing its share of value-added products, thus augmenting margins, would be important determinants of its overall performance. However healthy growth prospects for LED lighting market, given the ongoing transition from traditional lamps and CFL-based products to LED-based products, the Government's initiatives to promote energy saving products and high expenditure on advertisement to increase awareness about LED products, are also expected to support the company's revenue growth.

Liquidity Position: Stretched

Acuité expects the liquidity of Polymatech to remain stretched during initial phase expected start, stabilize and ramp-up in operations to generate cash accruals for upcoming large debt obligation over the medium. The project is funded through a term loan of Rs.25 crore and through equity infusion and unsecured loans from the promoters. The loan repayment is expected to commence from fiscal 2021. The company does not have any sanctioned working capital lines yet. Acuité expects cash flows to be able to meet its debt service obligation. However, Liquidity is further supported by need-based funds provided by shareholders.

Rating Sensitivities

- Stabilizes operations at its proposed plant in time and in the specified cost parameters
- Delay in project completion or lower than anticipated ramp-up leading further stress on liquidity.

Material Covenants

None

Outlook: Stable

Acuité believes that Polymatech will benefit from the extensive experience of promoters and their fund support. The outlook may be revised to 'Positive' if timely implementation of project and higher than expected revenue or profitability, leads to higher cash accruals. Conversely, the outlook may be revised to 'Negative' if there are any further delays in the commencement of its operations, or lower-than expected cash accruals, result in a pressure on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	-	-
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	-	-

FY2021 will be the first year of operations of the company.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Sector Entities - <https://www.acuite.in/view-rating-criteria-59.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/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
Term loan	31-04-2020	Not Applicable	31-03-2029	15.00	ACUITE B+ / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE B+ / Stable

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About Acuité Ratings & Research:

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