

Press Release

Harmony Plastics Private Limited

December 03, 2020

Rating reaffirmed



| | |
|-------------------------------------|-----------------------------------|
| Total Bank Facilities Rated* | Rs. 32.00 Cr. |
| Long Term Rating | ACUITE A- /Stable (Reaffirmed) |
| Short Term Rating | ACUITE A1 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 32.00 Crore bank facilities of Harmony Plastics Private Limited. The outlook is '**Stable**'.

About the Company

Harmony Plastics Private Limited was incorporated in 2005 as a joint venture between Mewar group and Alpha Protech Engineered product Inc. (USA). The company is engaged in manufacturing of PP woven fabrics (Coated and uncoated). In the year 2011 company started a new SEZ unit in Sachin (Surat) for manufacturing of disposable garments and shoe covers made from non-woven fabrics. As of now, the company have an annual capacity of 12500 MT per annum for PP fabric and 11 crore pieces per annum for disposable garments.

About the Group

Mewar group was established in 1979 by Mr. B.H. Bapna. The group currently consist of 4 companies, namely Harmony Plastics Private Limited, Mewar Polytex Limited, Plasti Weave Industry LLP and Sun Polytex Private Limited. The group is engaged in the business of manufacturing and export of polypropylene based woven and non-woven fabrics and sack bags.

About other group entities

Mewar Polytex Limited was incorporated in the year 1979 by Mr. B.H.Bapna. The Company initially incorporated as a private limited company. The company is engaged in the business of manufacturing and export of polypropylene based woven and non-woven fabrics and sack bags with an installed capacity of 6000 MT PP fabric per annum.

Sun Polytex Private Limited was incorporated in the year 2000 as a private limited company which is engaged in manufacturing of value added product of PP Fabric viz. spiral fabric, bale caps, bale bags, gusseted bags, potato bags etc. with an installed capacity of 6000 MT PP Fabric per annum.

Plasti weave Industries LLP is a partnership firm established in 2012. The firm is engaged in the business of manufacturing and export of polypropylene based woven and non-woven fabrics and sack bags with an installed capacity of 6500 MT PP fabric per annum. The LLP has also installed one multi filament yarn machine for captive use of yarn.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Harmony Plastics Private Limited, Mewar Polytex Limited, Plasti Weave Industry LLP and Sun Polytex Private Limited together known as Mewar Group, to arrive at this rating. The consolidation is on account of common management, similar line of business, and operational linkages. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long Track record of operations and experienced management:**

Mewar group was incorporated in 1980 by Mr. B.H.Bapna having an operational track record of more than four decades in the technical textile industry. Group's primary line of business is manufacturing and exporting of PP Woven fabrics and sack bags. Due to the long track record of operations, the group is considered as one of the top players in the aforementioned industry. Mr. B.H Bapna, the promoter of 'Mewar Group', is highly qualified with extensive experience of around four decades in industry. All the directors have well defined roles and responsibilities and look after different functions of the group. The directors have experience of more than two decades in the industry. Further, the directors are assisted by a team of qualified top managerial personnel and technical team having long standing experience in their respective fields. The extensive experience of the promoter has enabled the company to forge healthy relationships with customers. The key customers of the company include Alpha Pro tech, Polyjute Packaging Solution, Anita Plastics LLC, Delta Plastics amongst others with no major concentration in revenues.

Acuité believes that the group will continue to benefit from its experienced management and long track record of operation in technical textile industry.

- **Healthy Financial risk profile**

Group's financial risk profile has remained healthy marked by high net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.185.93 Crore as on 31 March 2020 as against Rs.166.98 Crore as on 31 March 2019. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period and infusion of unsecured loans by the promoters in business with a total of Rs. 29.49. Cr. resulting in the improvement of gearing level to 0.41 times as on March 2020 as against 0.48 times as on March 2019. The total debt of Rs.75.68 Crore as on 31 March 2020 consists of long term debt of Rs.35.67 Crore and working capital borrowings of Rs.40.01 Crore.

The cash accruals over the next three years through 2021 are estimated to remain in the range of Rs.42.32 to Rs.49.81 Crores against repayment obligations of Rs.6.25 Crore each year for the same period. As a result, the gearing is expected to improve in the near term. The interest coverage ratio (ICR) stood at 7.37 times in as against 8.53 times in FY2019 due. The decline in ICR is mainly due to high interest cost during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio increased to 0.51 times in FY2020 as against 0.47 times in FY2019. Debt to EBITDA stood at 1.44 times in FY2020 as against 1.53 times in FY2019. This is mainly due to a decline in the total debt during the period.

Acuité expects the financial risk profile of the company to remain healthy over the medium term on account of healthy accretion to reserves and strong debt protection metrics, leading to lower reliance on external borrowings.

- **Efficient Working capital management**

The working capital management of the group has improved in FY2020 marked by moderate Gross Current Assets (GCA) of 117 days in FY2020 as against 134 days in FY2019. The inventory and debtor levels stood at 70 days and 32 days in FY2020 as against 73 and 44 days in FY2019, respectively. The group usually maintains high amount of finished goods inventory as majority of its sales comes through export. As a result, the average utilization of bank limits stood low at ~44 per cent in the last six months ending September 2020.

Acuité believes that the working capital requirements will continue to remain comfortable over the medium term on account of timely payment from the customers.

Weaknesses

- **Stagnant growth in revenue with decline in profitability margins**

Although, the group have shown a significant growth in the past few years. However, in FY2020 the operating income of the group was muted. Operating Income for FY2020 stood at Rs.406.90 Crore as against Rs.405.79 Crore for the FY2019. This was mainly due to nationwide lockdown caused by COVID-19 pandemic. The EBITDA Margins declined marginally to 11.14 percent for FY2020 as against 11.66 percent in FY2019. This is mainly due to increase in employee cost and selling expenses. The PAT margin have declined significantly

to 4.73 percent in FY2020 from 5.88 percent in FY2019. This is mainly due to high depreciation cost, which is caused by major capital expenditure done by the group during the last two years.

In the current financial year, the Covid-19 Pandemic caused great disruption in the group. The operation were closed during the month of March and April. The company have resumed its operation from the last week of April. However, as of 30-09-2020, the group have achieved a total revenue of ~Rs.270.00 Crore with a PBT of Rs.21.26 Crore.

Acuite believes that the group will show a significant growth in revenue and its profitability by the end of this financial year on account of increase in demand and timely execution of orders.

• **Competitive and fragmented nature of operations**

The group is operating in competitive and fragmented nature of industry. There are several players engaged in the technical textile industry in organized and unorganized sector. Hence, the group might face pricing pressure from other competitors. Therefore, having an established brand name is of utmost importance in this industry along with continuous addition of value added products in the product offerings.

Rating sensitivity

- Decline in operating and profitability margins.
- Strong net worth and debt protection metrics.

Material Covenant

None

Liquidity position: Strong

The group has strong liquidity marked by high net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.38.64 Crore in FY2020 as against debt maturity obligation of Rs.6.10 Crore for the year. The cash accruals of the group are estimated to remain in the range of around Rs.42.00 Crore to Rs.50.00 Crore during FY2021-23 against the CPLTD of Rs.6.25 Crore each year for the same period. The company's working capital operations are moderate marked by gross current asset (GCA) days of 117 days in FY2020. As a result, the average utilization of bank limits stood low at ~44 per cent in the last six months ending September 2020. Company maintains unencumbered cash and bank balances of Rs.6.82 Crore as on 31 March 2020. The current ratio stands at 1.98 times as on 31 March 2020. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of high cash accruals against its maturity debt repayments over the medium term.

Outlook: Stable

Acuite believes that HPPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and longstanding relations with clientele. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 406.90 | 405.79 |
| PAT | Rs. Cr. | 19.24 | 23.87 |
| PAT Margin | (%) | 4.73 | 5.88 |
| Total Debt/Tangible Net Worth | Times | 0.41 | 0.48 |
| PBDIT/Interest | Times | 7.37 | 8.53 |

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>

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Up to last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-------------------|---------------------------------|------------|-----------------|-----------------------------|
| November 13, 2020 | Cash Credit | Long Term | 17.50 | ACUITE A-/Stable (Assigned) |
| | Term Loan-I | Long Term | 3.55 | ACUITE A-/Stable (Assigned) |
| | Term Loan-II | Long Term | 0.39 | ACUITE A-/Stable (Assigned) |
| | Term Loan-III | Long Term | 1.00 | ACUITE A-/Stable (Assigned) |
| | Term Loan-IV | Long Term | 5.61 | ACUITE A-/Stable (Assigned) |
| | Term Loan-V | Long Term | 2.75 | ACUITE A-/Stable (Assigned) |
| | Proposed Cash Credit Facility | Long Term | 1.10 | ACUITE A-/Stable (Assigned) |
| | Bank Guarantee | Short Term | 0.10 | ACUITE A1 (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 | 17.50 | ACUITE A-/Stable (Reaffirmed) |
| Term Loan-I | September-2015 | Not Applicable | August-2022 | 3.55 | ACUITE A-/Stable (Reaffirmed) |
| Term Loan-II | June-2020 | Not Applicable | May-2025 | 0.39 | ACUITE A-/Stable (Reaffirmed) |
| Term Loan-III | July-2019 | Not Applicable | June-2024 | 1.00 | ACUITE A-/Stable (Reaffirmed) |
| Term Loan-IV | October-2019 | Not Applicable | September-2024 | 5.61 | ACUITE A-/Stable (Reaffirmed) |
| Term Loan-V | Not Applicable | Not Applicable | Not Applicable | 2.75 | ACUITE A-/Stable (Reaffirmed) |
| Proposed Cash Credit Facility | Not Applicable | Not Applicable | Not Applicable | 1.10 | ACUITE A-/Stable (Reaffirmed) |

| | | | | | |
|----------------|----------------|----------------|----------------|------|---------------------------|
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.10 | ACUITE A1 (Reaffirmed) |
|----------------|----------------|----------------|----------------|------|---------------------------|

Contacts

| Analytical | Rating Desk |
|--|--|
| <p>Aditya Gupta Vice President - Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Aditya Singh Ratings Analyst - Rating Operations Tel: 011-49731303 aditya.singh@acuite.in</p> | <p>Varsha Bist Senior Manager – Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p> |

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.