Press Release

Forace Polymers Private Limited

March 31, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	182.00	ACUITE A- | Stable | Assigned	-
Bank Loan Ratings	68.00	-	ACUITE A2+ | Assigned
Total Outstanding Quantum (Rs. Cr)	250.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' (read as 'ACUITE A minus') on the Rs.182.00 Cr. long term bank facilities and a short-term rating of '**ACUITE A2+**' (read as 'ACUITE A two plus') on the Rs.68.00 Cr. short term bank facilities of Forace Polymers Private Limited (FPPL). The Outlook is '**Stable**'.

Rationale for Rating Assigned

The rating assigned takes into account FPPL's experienced management, established track record of operations and improving operating performance. It also draws comfort from FPPL's healthy financial risk profile, significant growth in revenues for 9MFY2022 which stood at Rs.455.96 Cr. against Rs.365.47 Cr. in FY2021. The operating margins during the same period stood at 8.83 per cent and 8.49 percent in FY2021. These strengths are however offset by significant elongation in its working capital cycle and presence in the cyclical nature of the industry. Any further elongation in the working capital cycle will remain a key rating sensitivity factor.

About the Company

Forace Polymers Private Limited (FPPL) was established in the year 1980 by the late Mr S. K. Garg. Since 2001, FPPL is being managed by Mr Vikas Garg, son of the late Mr S. K. Garg. The company is engaged in the manufacturing of Phenolic Resins applicable to and used in many industries including foundry, refractory, abrasives, friction and rubber. The current installed capacity of FPPL stands at 72000 MTPA and the company further plans to expand it to around 100000 MTPA. FPPL has a manufacturing plant on Haridwar-Delhi highway, Haridwar (Uttarakhand) India, with its sales office-cum-service centers spread PAN-India, positioned in major cities including Coimbatore, Jamshedpur, Mumbai, etc. in order to offer prompt and effective services. FPPL also has an overseas subsidiary; FP Speciality (PTY) Ltd. with its registered office in Gauteng, South Africa.

Analytical Approach

Acuité has considered a standalone financial and business risk profile of Forace Polymers Private Limited (FPPL)

Key Rating Drivers

Strengths

Experienced management and established track record of operations

FPPL was established in the year 1980 by the late Mr S. K. Garg. Since 2001, FPPL is being managed by Mr Vikas Garg, son of the late Mr S. K. Garg. The current promoters have more than two decades of experience in the resins industry. The extensive experience has helped the management to build strong reputation and brand in the industry over the years. Moreover, their experience has also helped in building healthy customer relations with reputed customers such as, Mahindra & Mahindra, Tata Motors, Kirloskar among others.

Acuité believes that the group will continue to benefit from the long experience of the management in establishing key relations with their suppliers and customers.

Significant improvement in operating performance

FPPL reported revenues of Rs. 456 Cr. for 9M FY2022, Rs.365 Cr. in FY2021 and 367 Cr. in FY2020. Growth in FY2022 is contributed partially by stabilisation in crude oil prices, further due to increased and upgraded installed capacities, which helped in eliminating manual intervention and material wastage thereby making optimum utilisation in terms of production. There had been a slowdown in revenue in FY2020 and FY2021 due to decline in the crude oil prices. The majority raw materials for FPPL's products are the base chemicals derived from natural gas and crude oil. Throughout 2019, increases in U.S. petroleum production put downward pressure on crude oil prices. Further during Q12020, worldwide demand for oil fell rapidly as governments closed businesses due to the COVID-19 pandemic resulting into oversupply of oil leading to a collapse in oil prices. FPPL's operating performance during FY2020 & FY2021 was partially impacted due to crude oil price fluctuations and covid induced disruptions. However the company's performance has shown a robust recovery in FY2022. Despite the subdued revenue growth FPPL had been able to maintain its margins. Operating margins remained in the range of 7-8 percent for FY2020-2022. It has reported operating margins of 8.49 percent during FY2021 Further, for 9M FY2022 its operating margins stood at 8.83 percent. FPPL's revenue is expected to be in the range of RS.600-660 crore over the medium term with operating margins of 8-9 percent.

Acuité believes that FPPL will sustain improvement in revenues and maintain its operating margins in the medium term on the back of expansion of capacities and stability in the pricing

Healthy financial risk profile

FPPL's financial risk profile is healthy marked by comfortable capital structure and debt protection metrics. The net worth of the company stood healthy at Rs.105.22 Cr. as on March 31, 2021 against Rs. 92.90 Cr. as on March 31, 2020. The improvement is on account of accretion to reserves. Net worth also includes of Rs. 38 Cr. of quasi equity as on March 31, 2021. FPPL's gearing improved to 0.66 times on March 31, 2021 as against 0.85 times as on March 31, 2020. The interest coverage and DSCR have also shown improvement and stood at 4.85 times and 2.31 times for FY2021 against 2.92 times and 1.89 times for FY2020 respectively. The company has a capex plan which will be primarily funded by debt of Rs. 35 Cr. and rest by promoters contribution. Despite the additional debt FPPL's gearing is expected to be in the range of 0.99-0.90 times and interest coverage in the range of 4.77 times over the medium term.

Acuité believes the financial risk profile of the FPPL is expected to remain stable on account of its improving operating performance despite the plans to raise additional debt.

Weaknesses

Working capital intensive nature of operation with further elongation in FY2021

The company's operations are working capital intensive marked by Gross Current Asset (GCA) days of 217 in FY2021. The elongation of GCA days is primarily contributed by elongated debtor days of 149. The company directly caters to multiple industries including foundry, refractory, abrasive, rubber etc. The payment terms of every industry differ and in order to increase its customer base company has extended its credit period resulting in elongation of collections. However, as on March 31, 2021 only 14 per cent of the total debtors contribute for more than 180 days elongation. Further, this number has reduced to 7.92 percent as on December 31, 2021. Also, the elongation in collections during FY2021 are to some extent on account spread of Covid 19 and the subsequent lockdowns. Further, the creditor days stood at 129 in FY2021 against 103 days in FY2020. FPPL has been able leverage its relations with its suppliers for longer credit periods, thus reducing its reliance on working capital borrowings. Bank limit remained modest stood at 60 per cent for latest 12m ended Dec-21. Moreover, the 9M FY2022 working capital cycle has improved marked by debtor & creditor days of 122 and 80 respectively. The company has been maintaining average inventory days of 52 through 2019-21 which shows its efficiency in creating demand and selling its goods

Acuité believes any significant deviation in working capital management would be a key rating sensitivity factor.

Susceptible to fluctuations in prices of raw material

The major raw materials of the company products are the base chemicals derived from natural gas and crude oil. The company's performance remains vulnerable to cyclicality in the oil industry as prices for the industry are highly volatile and may affect the market demands. Moreover, the prices of the same are fluctuating in nature, therefore the operating performance of the company is susceptible to raw material price fluctuation. However company has been able to maintain stable operating margins over the years which shows that company can pass on the price fluctuations to its customers.

Rating Sensitivities

- Sustenance in turnover growth and operating margin
- Further elongation in the receivable cycle

Material covenants

None

Liquidity Position: Adequate

The company generated cash accruals in the range Rs.19.75-20.74 Cr during the three years through 2019-21, while its maturing debt obligations were in the range Rs. 4.16-5.35 Cr. over the same period. The cash accruals of the company are estimated to remain around Rs.34-38 Cr. during 2022- 23, while its maturing obligations are estimated between Rs.7-10 Cr. The working capital intensive nature of the group is marked by Gross Current Asset (GCA) days of 217 in FY2021. However, reliance on working capital borrowings has been modest and stood at around 60 per cent for latest 12m ended December-21as FPPL has been able to leverage its established relations with suppliers to get longer credit period. . The current ratio of the company stands comfortable at 1.38 times as on March 31, 2021 as against 1.31 times as on March 31, 2020. The liquidity is expected to remain adequate on the back of adequate buffer between net cash accruals and debt repayment obligations constrained to some extent on account of lower unutilised bank limits over the near to medium term.

Outlook: Stable

Acuité believes that FPPL will maintain a 'Stable' outlook over the medium term owing to its increase in scale of operations, stable margins and 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 expected growth in revenues and operating margins or the financial risk profile deteriorates owing to higher- than expected increase in debt-funded working capital requirement.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	365.47	367.14
PAT	Rs. Cr.	12	8.23
PAT Margin	(%)	3.28	2.24
Total Debt/Tangible Net Worth	Times	0.66	0.85
PBDIT/Interest	Times	4.85	2.92

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-59.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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+ | Assigned
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- | Stable | Assigned
Bajaj Finserv Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- | Stable | Assigned

Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- | Stable | Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE A- | Stable | Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- | Stable | Assigned
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2+ | Assigned
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE A2+ | Assigned
Bajaj Finserv Limited	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE A- | Stable | Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	7.00	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	3.58	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	5.42	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	18.00	ACUITE A- | Stable | 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 8,850 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 Kanjurmarg, Mumbai.