Press Release

FORACE POLYMERS PRIVATE LIMITED

June 28, 2023

Rating Reaffirmed

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

Rating Rationale

Acuité has reaffirmed 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 reaffirmation

The rating reaffirmation takes into account the company's experienced management, established track record of operations and healthy operating performance. The revenue from operations recorded healthy growth owing to planned capex which stood at Rs.783 Cr. during FY2023(Provisional) against Rs.640 Cr. in FY2022 and Rs. 365 Cr. in FY2021. The rating also draws comfort from FPPL's adequate liquidity along with comfortable coverage indicators. These strengths are however offset by moderation in financial risk profile, working capital intensive nature of operations, and profitability being susceptible to raw material prices. Acuité believes that going forward, any further deterioration in the financial risk profile will impart a negative bias to the rating.

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 having its applicability in many industries including foundry, refractory, abrasives, friction and rubber. The current installed capacity of FPPL stands at 90000 MTPA and the company further plans to expand it to around 120000 MTPA. FPPL has a manufacturing plant in Haridwar (Uttarakhand) India, with its sales office-cum-service centres spread PAN-India, positioned in major cities including Coimbatore, Jamshedpur, Mumbai, etc. 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 relations with reputed customers such as, Mahindra & Mahindra, Jindal Saw Ltd. among others. Further, for procurement of raw materials the company has association with large companies like Deepak Phenolics Ltd etc.
Acuité believes that the group will continue to benefit from the extensive experience of the management in establishing key relations with their suppliers and customers.

Stable revenue growth supported by planned capex
FPPL reported revenues of Rs. 783 Cr. for FY2023 (Provisional) against Rs. 640 Cr. in FY2022 and Rs.365 Cr. in FY2021. Revenue growth over the years is well supported by planned capex as reflected in an average FATR of around 5.15 times for last three years ended FY2023. Company has been continuously investing in capex for automation of plants thereby minimising manual intervention and material wastage for optimum utilisation in terms of production. The installed capacity increased to 90,000 MTPA in FY2023 from 73,000 MTPA in FY2022 and 63,500 MTPA in FY2021. FPPL further aims to increase its capacity up to 1,20,000 MTPA in next two years. Company has been able to utilize the capacities at around 80 per cent over the last two years. Further, FPPL has been able to pass on the incremental costs as reflected in the stable operating margins in the range of 8-8.5 percent for the last three years ended FY2023. Going forward, with planned capex on solar panel installations the company aims to control costs and increase its operating margins further.
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 company's ability to pass on the pricing.

Healthy cash accruals and coverage indicators
The company's cash accruals have remained healthy in the range of around Rs. 37-39 Cr. for the last two years ended FY2023(Provisional). Further, although the company has availed debt to the tune of Rs. 56 Cr. during the latest two years for the purpose of capex, the coverage indicators have stood healthy as reflected in the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) of 4.42 times and 2.47 times during FY2023(Provisional) and 5.84 times and 3.12 times during FY2022 respectively. Going forward, the company plans to avail further debt to the tune of Rs. 45 Cr. for increase in capacities and modernisation towards assets, but the same is not expected to impart any adverse effect on the coverage indicators. The ICR and DSCR is expected to deteriorate marginally but stand adequate in the range of 3.97-4.47 times and 1.96-1.72 times respectively for FY2024 and FY2025. However, Acuité believes company's ability to efficiently carry out planned capex without having any significant impact on the financial risk profile will remain a key rating sensitivity.

Weaknesses

Moderation in the financial risk profile
FPPL's financial risk profile has deteriorated owing to availing additional working capital funding and debt funded capex undertaken in the last two years ended FY2023. The company's total debt stood at Rs. 209 Cr. as on March 31, 2023(Provisional) against 186 Cr. in FY2022. However, FPPL's net worth stood healthy at Rs. 159 Cr. as on March 31, 2023 against Rs. 133 Cr. as on March 31, 2022. This includes issuance of non-cumulative preference shares to the promoters to the tune of Rs.103.59 Cr. for a period of 20 years and redeemable in 2036. However, additional debt has resulted in deterioration of the gearing. The gearing stood moderate at around 1.31 times on March 31, 2023 (Provisional) as against 1.40 times as on March 31, 2022, and 0.66 times as on March 31 2021.The company has further capex plans and will be availing debt close to Rs.45 Cr. during FY2024. The gearing is expected to remain at around 1.39 times during the same period. Further, the company's Debt/EBITDA levels have been moderate at around 3.30 times for last two years ended FY2023(Provisional). Going forward, with additional debt the rating will impart negative bias in case of further deterioration in the financial risk profile.

Working capital intensive nature of operations
The company's operations are working capital intensive marked by Gross Current Asset

(GCA) days of 182 in FY2023 (Provisional) against 218 in FY2022. The higher GCA days is primarily contributed by although improved, but elongated debtor days of 107 in FY2023(Prov) against 131 in FY2022. The company directly caters to multiple industries including foundry, refractory, abrasive, rubber etc. The payment terms of every industry being different, and company being catering to reputed clients like Mahindra & Mahindra, Jindal Saw etc it has to extend longer credit period resulting in elongation of collections. However, as on May 31, 2023 only 13 per cent of the total debtors fall under more than 90 days receivables. Further, FPPL has been able to leverage better relations with its suppliers for availing longer credit periods, while reducing its reliance on working capital borrowings. The average creditor days stood at around 91 days for the last three years ended FY2023. Bank limit utilisations have remained moderate at around 71 per cent for latest six months ended April-23.
Acuité believes any significant deviation in working capital management would be a key rating sensitivity factor.

Profitability susceptible to fluctuations in prices of raw material
The major raw material for the company is the base chemical 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 remains 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

- Growth in scale of operations thereby maintaining sustainable profitability.
- Timely completion of capex without significant impact on the financial risk profile.
- Deterioration in receivable days leading to elongation of the working capital cycle.

Material covenants

None

Liquidity Position

Adequate

The company generated cash accruals in the range Rs.20.74 - 39.99 Cr during the three years through 2021-23, while its maturing debt obligations were in the range Rs.5.35 Cr- Rs.7.63 Cr. over the same period. The cash accruals of the company are estimated to remain in the range of Rs 46-57 Cr. during FY2024 & FY2025, while its maturing obligations are estimated at around Rs 15 Cr and Rs. 25 Cr respectively. However, the operations of the company are working capital-intensive in nature marked by Gross Current Asset (GCA) days of 182 in FY2023(Provisional) against 218 in FY2022. This is dominated by although improved, but higher receivable days of around 107 and 131 days respectively. However, reliance on working capital borrowings has been moderate at around 71 per cent for the latest 6 months ended April-23 as FPPL has been able to leverage its established relations with suppliers to get longer credit period. The average credit period for latest three years ended FY2023 stood at 91 days. Further, the cash and bank balances stood at around Rs. 24 Cr. as on March 31, 2023 (Provisional) against Rs. 22 Cr. as on March 31, 2022. The current ratio of the company stood comfortable at 1.29 times as on March 31, 2023(Provisional) and March 31, 2022. The liquidity is expected to remain adequate on the back of adequate cushion between net cash accruals and debt repayment obligations.

Outlook: Stable

Acuité believes that FPPL will maintain a 'Stable' outlook over the medium term owing to its stable operating profile 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 capital requirement.

Other Factors affecting Rating
Not Applicable.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	783.24	640.24
PAT	Rs. Cr.	26.49	28.16
PAT Margin	(%)	3.38	4.40
Total Debt/Tangible Net Worth	Times	1.31	1.40
PBDIT/Interest	Times	4.42	5.84

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
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Mar 2022	Letter of Credit	Short Term	4.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	7.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Letter of Credit	Short Term	43.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	5.42	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	43.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	18.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	3.58	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE A- | Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ | Reaffirmed
Bajaj Finserv Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A- | Stable | Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	43.00	ACUITE A- | Stable | Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A- | Stable | Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A- | Stable | Reaffirmed
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	43.00	ACUITE A2+ | Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2+ | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.68	ACUITE A- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.50	ACUITE A- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.54	ACUITE A- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	18.13	ACUITE A- | Stable | Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.65	ACUITE A- | Stable | Reaffirmed
Bajaj Finserv Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.50	ACUITE A- | Stable | Reaffirmed

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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.