

Press Release
Gujarat Polysol Chemicals Limited
(Erstwhile Gujarat Polysol Chemicals Private Limited)

August 24, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	69.00	ACUITE A- Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	76.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	145.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

The Press Release is being revised on account of change in constitution of the company from Private Limited to Public Company resulting in change in name of the company from 'Gujarat Polysol Chemicals Private Limited' to 'Gujarat Polysol Chemicals Limited'.

Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating at '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.145.00 Cr bank facilities of GUJARAT POLYSOL CHEMICALS LIMITED (GPCL). The outlook is revised from '**Stable**' to '**Positive**'.

Rationale for reaffirmation and revision in outlook

The rating reaffirmation factors consistent operating and financial performance of the company over the last two years. The rating also draws comfort from recovery in the company's scale of operations post covid-19, strong financial risk profile and adequate liquidity position also reflected by its moderate reliance on bank limits. The outlook has been revised to 'Positive' from 'Stable' taking into consideration- near-term plans of GPCL to raise additional equity through an initial public offering which is likely to further improve GPCL's financial flexibility significantly. The revision in outlook also factors in expected improvement in the scale of operations post successful amalgamation of its sister concern which will enhance the existing production capacity of the Company by 1.5 lakh MTPA.

About the Company

Gujarat Polysol Chemicals Limited is a Vapi-Gujarat based company promoted by Mr. Shailesh Desai and the family members. The company was incorporated in the year 1989 and was initially engaged in manufacturing dyes and dye intermediates. However, currently the company is engaged in manufacturing and trading of various types of chemicals primarily the disperse agents which have wide application in the industries like construction, textile, leather and agro chemicals. The company is one of the leading manufacturers of wide range of

chemicals and intermediates in India. The company has its manufacturing unit at Vapi, Gujarat with an installed capacity of 1,30,400 MTPA.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of GPCL to arrive at this rating.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

Gujarat Polysol Chemicals Limited was incorporated in the year 1989. The company has a long track record of operation of more than three decades in the aforementioned industry. The company is promoted by Mr. Shailesh Desai and the family members. The promoters have an experience of more than three decades in the chemical industry. The extensive experience of the promoters and established track record of operation has helped the company to maintain healthy relationship with its customers and suppliers.

The chemicals manufactured by the company find it use in industries like Infrastructure, Agro/ Pesticide, Leather and Textile industries wherein the chemicals are used as an admixture to make the final product. The company generates around 66 percent of revenue from Infratech Chemicals followed by 18 percent from textile and 10 and 6 percent respectively from agrochemicals and leather chemicals.

Acuité believes that the company will benefit from its experienced management, long track of operation and diversified product portfolio.

Stable operating performance and near term plans to raise additional equity

The company has recorded a stable operating performance in FY2022. The revenue of the company stood at Rs.433.75 crore in FY2022 (Prov.) as against Rs.378.05 crore in FY2021. The growth seen in the revenue is driven by the increased demand on account of resumption of infrastructural and manufacturing activities in the industry. Besides the increased demand, higher price realizations also led to improvement in scale of operations. EBITDA margins stood at 14.91 percent in FY2022 as against 16.77 percent in FY2021. The decline is primarily on account of increased employee costs during the period. The net profitability of the company stood at 8.97 percent in FY2022 as against 10.60 percent in FY2021.

GPCL in the near-term plans to raise additional equity funds vide an initial public offering of Rs.414 Cr out of which Rs.87 Cr will be fresh issue and Rs.327 Cr will be offer for sale. The funds are planned to be utilized towards pre-payment/repayment of borrowings of upto Rs.65 Cr, for acquisition of a sister concern - acquisition of which will add 1.57 lakh MTPA to its production capacity; and balance for general corporate purposes.

Acuite believes that the business risk profile of the company will continue to improve with the diversified product portfolio and healthy demand expected in the chemical industry. Further, with raising of additional equity, the financial flexibility of the company is expected to improve and the acquisition of sister concern will aid the company in improving its scale of operations.

Healthy financial risk profile

GPCL's financial risk profile is healthy marked by strong net worth, low gearing coupled with comfortable debt protection metrics and coverage indicators. The company's net worth stood at Rs.164.30 Cr (Prov.) as on March 31, 2022 as against Rs.124.56 Cr as on March 31, 2021. The net worth levels have seen significant improvement over the year through FY2022 on account of healthy accretion to reserves over the period. The company has followed conservative leverage policy in the past which can be witnessed with peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.04 times and 2.99 times respectively in FY2019. The gearing has improved and continues to remain low at around 0.57 times (Prov.) as on March 31, 2022 as against 0.62 times as on March 31, 2021. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 1.09 times (Prov.) as on March 31, 2022 as against 1.38 times as on March 31, 2021. Debt protection metrics of the

company are comfortable with Debt service coverage ratio (DSCR) at 2.89 times in FY2022 as against 3.51 times in FY2021. Interest coverage ratio (ICR) stood at 8.19 times in FY2022 as against 8.42 times in FY2021.

Acuite believes the financial risk profile of the company will continue to remain healthy on account of its healthy revenue growth, healthy cash accruals and no major debt funded capex in near to medium term.

Weaknesses

Working Capital Operation is intensive in nature

Working capital operations of the GPCL are intensive reflected by Gross Current Asset (GCA) days at 222 days in FY2022 as against 225 days in FY2021. Elongated GCA days are driven by higher debtor collection period. Debtor days stood at 129 days in FY2022 as against 162 day in FY2021 in line with credit policy of the company. The inventory holding period stood at 46 days in FY2022 as against 47 days in FY2021. The average bank limit utilization stood low at around 56 percent for seven months ended July, 2022

Acuite expects the working capital management to remain intensive over the medium term on account of higher debtor collection period offered to its customers for the payment realization.

Susceptibility of operating performance to input price volatility and increasing competition

The raw materials are procured both from the domestic market as well as through the imports. Around 50 percent of the products are procured through imports from countries like South Korea, Spain Singapore and China to name a few. The prices of the raw material are highly volatile in nature and any adverse movement in the price of raw material may impact the profitability of the company. Due to significant exposure to imports, there is a foreign fluctuation risk associated to it. However, the company mitigates this risk as it carries forward the price fluctuation risk on its customer. There is a price escalation clause in every contract wherein a specific timeline is mentioned for supplying the product and also any fluctuation in the price of the raw material is carried forward on the customers. Engaging itself into forward contracts, placing back to back orders and procuring the raw material at a bulk quantity helps the company to mitigate price volatility risk to a larger extent

Rating Sensitivities

Improvement in the scale of operation while maintaining its profitability margin at the current level

Any deterioration or stretch in the working capital cycle may impact the financial risk profile

Delays in near term plans to raise additional equity

Material covenants

None

Liquidity: Adequate

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.43.06Cr (Prov.) in FY2022, while its' maturing debt obligation were Rs.8.30 Cr for the same period. The cash accrual of the company is estimated to remain around Rs.50.00Cr to Rs.68.00Cr during 2022-24 against repayment obligations of around Rs.11.30 Cr to Rs.12.90 Cr during the same period. The company's working capital operations is intensive in nature marked by the gross current asset (GCA) days of 222 days (Prov.) in FY2022. The average bank limit utilization stood low at around 56 per cent for seven months ended July, 2022. The company maintains unencumbered cash balance of Rs.0.23 crore as on 31st March 2022. The current ratio of the company stood at 2.11 times (Prov.) as on 31 March 2022.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Positive

Acuite believes that GPCL's financial risk profile is expected to strengthen on account of the equity issuance through the initial public offer which is likely to give the company additional financial flexibility. Further, the business risk profile is likely to strengthen further thereby leading to better cash flow, driven by strong operating performance, resulting in further strengthening of the financial risk profile of the company. The ratings may be upgraded in case of higher-than-anticipated cash accruals, most likely driven by significant and sustainable improvement scale of operations, or in case of a significant reduction in the GPCL's debt levels, leading to sustained improvement in its capital structure and debt protection metrics. Conversely, the outlook may be revised to 'Stable' in the event of delays in raising of additional equity over the near term or lower than expected operating performance.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	436.11	378.38
PAT	Rs. Cr.	39.11	40.10
PAT Margin	(%)	8.97	10.60
Total Debt/Tangible Net Worth	Times	0.57	0.62
PBDIT/Interest	Times	8.19	8.42

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

Not Applicable

Any other information

None

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 May	Cash Credit	Long Term	23.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bills Discounting	Long Term	1.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	15.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Bank Facility	Long Term	7.70	ACUITE A- Stable (Assigned)

2021	Term Loan	Long Term	1.88	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Letter of Credit	Short Term	40.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Term Loan	Long Term	2.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
19 Aug 2020	Term Loan	Long Term	17.92	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	35.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Letter of Credit	Short Term	25.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Letter of Credit	Short Term	40.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	1.25	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bills Discounting	Short Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	7.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	23.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	2.50	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	2.25	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	7.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	25.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	23.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	2.50	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.25	ACUITE BBB Stable (Reaffirmed)
	Bills Discounting	Short Term	1.00	ACUITE A3+ (Reaffirmed)
		Long		
04 Jan 2019	Term Loan	Term	2.25	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	25.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	2.25	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Bills Discounting	Short Term	1.00	ACUITE A3+ (Reaffirmed)

	Cash Credit	Long Term	23.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	2.50	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.25	ACUITE BBB Stable (Reaffirmed)
12 Apr 2018	Cash Credit	Long Term	23.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	1.25	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE BBB Stable (Assigned)
	Bills Discounting	Short Term	1.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A- Positive Reaffirmed Stable to Positive
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A- Positive Reaffirmed Stable to Positive
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A- Positive Reaffirmed Stable to Positive
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.16	ACUITE A- Positive Reaffirmed Stable to Positive
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	23.49	ACUITE A- Positive Reaffirmed Stable to Positive
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.88	ACUITE A- Positive Reaffirmed Stable to Positive
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.47	ACUITE A- Positive Reaffirmed Stable to Positive

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Deepti Bhandarkar Analyst-Rating Operations Tel: 022-49294065 deepti.bhandarkar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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