



### Press Release

## GUJARAT POLYSOL CHEMICALS LIMITED (ERSTWHILE GUJARAT POLYCHEMICALS PRIVATE LIMITED)

November 17, 2023

### Rating Reaffirmed and withdrawn

Product	Amt(Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	56.21	ACUITE A-   Stable   Reaffirmed   Positive to Stable	-
Bank Loan Ratings	12.79	Not Applicable   Withdrawn	-
Bank Loan Ratings	76.00	-	ACUITE A2+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	132.21	-	-
Total Withdrawn Quantum (Rs. Cr)	12.79	-	-

### Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and its short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.132.21 Cr bank facilities of Gujarat Polysol chemicals limited (GPCL). The outlook is revised from '**Positive**' to '**Stable**'.

Acuite has also withdrawn the rating on the Rs.12.79 Cr bank facilities of GPCL. The rating has been withdrawn on receipt of withdrawal request from the company and No Objection Certificate (NOC) from the lenders due to repayment of the term loans.

The rating has been withdrawn as per Acuite's policy of withdrawal of ratings.

### Rationale for reaffirmation and revision in outlook

The rating reaffirmation takes into account the stable business risk profile of the company over the last two years. The revenues of the company stood at Rs.489.75 Cr in FY2023 as against Rs.436.24 Cr in FY2022 majorly driven by resumption of infrastructural and manufacturing activities post covid-19 pandemic. Further, the rating also draws comfort from the established market position of the Company in the chemical industry with experienced promoters. The rating also factors in the healthy financial risk profile and adequate liquidity position of the Company. However, the rating is constrained by the working capital intensive nature of operations and susceptibility of operating performance to input price volatility and foreign fluctuation risk.

The outlook has been revised from '**Positive**' to '**Stable**' as the Company has postponed its plans to raise additional equity through initial public offering (IPO) plans which was earlier expected. The additional equity was expected to further deleverage the financial risk profile of the Company and to provide higher financial flexibility in the near term. GPCL had earlier expected to raise equity through IPO of Rs. 414 Cr. However, there was no equity infusion as anticipated and also the operating performance of the Company has largely been in line with previous year. Acuite believes that going forward any infusion of equity by the promoters and any significant increase in the scale of operations while maintaining or improving margins will remain a key rating sensitivity factor.

### **About the Company**

Gujarat Polysol Chemicals Limited. (GPCL; erstwhile Gujarat Polysol Chemicals Pvt. Ltd.) is a Vapi-Gujarat based Company incorporated in 1989. It is engaged in manufacturing of chemicals where the end use is in various sectors like Infrastructure, textile, agriculture and

leather. The Company's finished products are the intermediates which are used as raw material for further admixture industries to make their final products. The Company has 3 manufacturing facilities at Vapi, Sarigam (Gujarat) and the last one at Dadra & Nagra Haveli at a capacity of 130,400 Metric Tonnes Per Annum (MTPA). The Company has taken over the facility of Bhavisha Enterprises, its sister concern which is expected to increase the overall capacity to 184,400 MTPA. The promoters of the Company are Mr. Shaileshkumar Balvantrai Desai, Mr. Umang Shaileshbhai Desai and Ms. Bhavisha Shaileshbhai Desai.

### **Unsupported Rating**

Not Applicable

### **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**

GPCL is being promoted by Mr. Shailesh Desai and 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 11 percent from textile and 18 and 5 percent respectively from agrochemicals and leather chemicals. Through continuous innovations and R & D the Company keeps adding products to its portfolio which can be used in various industries. Acuité believes that the Company will benefit from its experienced management, long track of operation and diversified product portfolio.

##### **Stable operating performance**

GPCL has recorded a healthy operating performance with a 12% Year-on-year growth with a revenue of the Company stood at Rs.489.57 Crore in FY2023 as against Rs.436.24 Cr in FY2022 and Rs.378.38 Cr 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. Furthermore, the Company has acquired the manufacturing facility of its Vapi, Gujarat based sister concern Bhavisha Industries in FY2024 which has increased its capacity from 130,400 metric tonnes per annum (MTPA) to 184,400 MTPA. This is further expected to add to the revenues of the Company. Till September 2023, GPCL has attained a revenue of Rs. 237 Cr and expects to clock a revenue of about Rs. 600 Cr for FY2024.

The operating margins of the Company improved to 15.96 % in FY2023 vis-à-vis 14.88% in FY2022. The same has been a result of better absorption of costs. With constant modifications and innovations, new products are being added in the product portfolio which fetch higher margins. The net profitability of the Company stood at 10.12 % in FY2023 as against 8.86% in FY2022.

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 the acquisition of sister concern's manufacturing facility, the Company's scale of operations is expected to improve over the medium term.

##### **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.231.92 Cr as on March 31, 2023 as against Rs.181.08 Cr as on March 31, 2022. The

net worth levels have seen significant improvement over the year through FY2023 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 gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.24 times and 0.55 times respectively in FY2023. Although the additional equity by way of IPO have not accrued to the Company has been able to deleverage its capital structure slightly. The gearing has improved and continues to remain low as against 0.51 times as on March 31, 2022. Debt protection metrics of the Company are comfortable with Debt service coverage ratio (DSCR) at 3.36 times in FY2023 as against 3.31 times in FY2022. Interest coverage ratio (ICR) stood at 11.12 times in FY2023 as against 8.15 times in FY2022.

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 GPCL are intensive reflected by Gross Current Asset (GCA) days at 184 days in FY2023 as against 220 days in FY2022. The GCA days are driven by higher debtor collection period. Debtor days stood at 111 days in FY2023 as against 128 day in FY2022 in line with credit policy of the Company. The inventory holding period stood at 41 days in FY2023 as against 46 days in FY2022. Against this the Company provides receives a credit from its supplier of about 60 days and it stood at 63 days as on March 31, 2023. The average bank limit utilization stood low at around 10 percent for twelve months ended August, 2023. 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 foreign fluctuation risk**

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. Despite this, the operating margin of the Company has fluctuated between 14.88% and 16.77% in last 3 years ended March 31, 2023 with an operating margin of 15.96% as on March 31, 2023. Acuite believes that the operating margins of the Company will continue to remain volatile and susceptible to raw material price changes and foreign exchange fluctuations over the medium term.

## **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
- Any large debt funded capex plan

## **All Covenants**

None

## **Liquidity Position**

## **Adequate**

The Company has adequate liquidity marked by healthy cash accruals, absence of debt funded capex plans and comfortable current ratio. The net cash accruals of the Company stood at Rs.54.58 Cr in FY2023 as against debt repayment obligation of Rs. 11.27 Cr. Net cash accruals are expected to remain sufficient in the range of Rs.65 Cr to Rs. 85 Cr as against debt repayment obligation of Rs. 9 Cr to Rs. 12.31 Cr. However, the Company's working capital operations is intensive in nature marked by the gross current asset (GCA) days of 184 days in FY2023. The current ratio of the Company stood at 2.77 times as on March 31, 2023. The bank limit utilisation remained low with average utilisation of 8.52% for 12 months ended August 2023. GPCL has maintained unencumbered cash balance of Rs.0.95 crore as on 31st March 2023 as against Rs.0.23 crore as on 31st March 2022. However, the Company has extended unsecured loans to its wholly owned subsidiary Polysol Speciality Chemicals Pvt Ltd for setting up a chemical plant in Alwar, Rajasthan and is expected to support it over the medium term to set up the plant, the expected capital outlay of which would be about Rs. 20 Cr. This reduces the financial flexibility of the Company slightly. Acuite believes that the liquidity of GPCL will remain adequate on the back of increasing accruals, absence of debt funded capex plans, healthy current ratio low bank limit utilisation over the medium term.

## **Outlook: Stable**

Acuite believes that the Company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the chemical industry and healthy financial risk profile. The outlook may be revised to 'Positive' if the Company registers higher than expected growth in its revenue while maintaining its operating margins at its current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the Company registers lower than expected growth in revenues and profitability or in case of deterioration in the Company's financial risk profile or significant elongation in the working cycle.

## **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	489.57	436.24
PAT	Rs. Cr.	49.57	38.66
PAT Margin	(%)	10.12	8.86
Total Debt/Tangible Net Worth	Times	0.24	0.51
PBDIT/Interest	Times	11.12	8.15

### 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

In order to inform the investors about complexity of instruments, Acuite 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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Sep 2022	Term Loan	Long Term	1.88	ACUITE A-   Positive (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A-   Positive (Reaffirmed)
	Cash Credit	Long Term	23.00	ACUITE A-   Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	4.16	ACUITE A-   Positive (Reaffirmed)
	Bills Discounting	Long Term	1.00	ACUITE A-   Positive (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	35.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	23.49	ACUITE A-   Positive (Reaffirmed)
	Term Loan	Long Term	0.47	ACUITE A-   Positive (Reaffirmed)
28 May 2021	Letter of Credit	Short Term	35.00	ACUITE A2+ (Upgraded from ACUITE A2)
	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)
	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)
	Term Loan	Long Term	17.92	ACUITE A-   Stable (Assigned)
19 Aug 2020	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)
		Short		



	Bank Guarantee	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)



## 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 (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A2+   Reaffirmed
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A-   Stable   Reaffirmed   Positive to Stable
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.00	ACUITE A-   Stable   Reaffirmed   Positive to Stable
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A-   Stable   Reaffirmed   Positive to Stable
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A2+   Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE A2+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.76	ACUITE A-   Stable   Reaffirmed   Positive to Stable
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.40	Not Applicable   Withdrawn
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.45	ACUITE A-   Stable   Reaffirmed   Positive to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.88	Not Applicable   Withdrawn
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.47	Not Applicable   Withdrawn
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.04	Not Applicable   Withdrawn

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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.

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