Press Release

Ralin Polymers Private Limited

November 06, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs. 25.00 crore bank facilities of Ralin Polymers Private Limited (RPPL). The outlook is **'Stable'**.

Dewas (Madhya Pradesh) based, RPPL was incorporated in 2012 and the operations started from February, 2014. The company is engaged in manufacturing, stitching, printing and lamination of PP/HDPE woven fabric, sacks and bags; and BOPP Laminated Bags used in various industries for packaging. The directors of the company are Mr. Manish Shah, Mr. Rahul Shah, Mr. Paresh Patel and Mr. Bhavesh Patel. The manufacturing unit is located in Dewas, Madhya Pradesh and has an installed capacity around 5,200 MTPA.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RPPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  Mr. Murari Shah is one of the promoters of the company and has an experience of over two decades in the plastic packaging industry. Mr. Rahul Shah has an experience of around six years and other directors of the company have an experience of over two decades in the aforementioned line of business. The experience of the management has helped the company develop healthy relationships with its customers and suppliers. The company caters to reputed clientele such as Sanghvi Foods group, Chameli Devi Group, Prestige Group and Ostwal group among others. Acuité believes that RPPL will sustain its existing business profile on the back of its experienced management and reputed clientele.

- **Moderate financial risk profile**

  The financial risk profile of the company stood moderate marked by moderate net worth, debt protection metrics and coverage indicators. The net worth of the company stood at Rs. 21.06 crore (including Rs. 2.98 crore of quasi equity) as on 31 March, 2019 as against Rs. 16.90 crore (including quasi equity of Rs. 2.16 crore) as on 31 March, 2018. The gearing (debt-equity) stood low at 0.78 times as on 31 March, 2019 as against 1.10 times as on 31 March, 2018. The total debt of Rs. 16.45 crore as on 31 March, 2019 mainly comprises Rs. 12.57 crore of working capital borrowings and Rs. 3.88 crore of long term debt. The coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) which stood at 3.97 times for FY2019 as against 4.75 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.32 times in FY2019 as against 0.26 times in FY2018. Further, the Total outside Liabilities to Tangible Net Worth (TOL/TNW) ratio continue to remain low at 0.87 times as on 31 March 2019 as against 1.27 times as on 31 March, 2018. Debt to EBITDA stood at 1.94 times for FY2019 as against 2.31 times for FY2018.

  The company is planning for a capital expenditure in FY2020, increasing the installed capacity of the unit to 7000 MT per annum from 5200 MT per annum. The company is going for forward integration by setting up printing cum lamination machine for lamination and printing of sacks. The total project cost is ~ Rs. 10.00 crore. The company plans to avail term loan of ~Rs. 6.50 crore.

Acuité believes the financial risk profile of the company will remain moderate in near to medium term on account of healthy accretion to reserves and infusion of unsecured loans of ~Rs. 0.90 crore (already infused).

• **Moderate working capital management**
The company's working capital operations are moderate marked by Gross Current Assets (GCA) days of 140 days for FY2019 as against 149 days for FY2018. This is mainly driven by debtors of 94 days for FY2019 as against 97 days for FY2018. The inventory level of the company stood at 33 days for FY2019 as against 37 days for FY2018. On the other hand, the company gets only a week's credit from its suppliers. As a result, the reliance on working capital limits is moderate, leading to utilization of its bank limits at an average of 85 per cent over the last six months ended August 2019. Acuité believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile on account of high receivable days.

Weaknesses

• **Modest scale of operations**
RPPL has modest scale of operations marked by operating income of Rs. 72.49 crore in FY2019 as against Rs. 62.61 crore in FY2018. The company has registered revenues of Rs. 38.85 crore for the period April 2019 to Sept 2019. Further, the profitability of the company remained moderate marked by operating margins of 11.69 percent in FY2019 as against 12.81 percent in FY2018. However, the decline in margins is mainly due to write off of bad debts in FY2019. Profit after tax (PAT) margins stood at 4.61 percent in FY2019 as against 5.10 percent in FY2018. Also, the margins are susceptible to fluctuation in crude oil prices since the major raw material is PP granules.

Acuité expects that revenue and profitability to improve on account of increase in capacity by FY2020 and installation of new machineries for lamination and printing of woven sacks.

• **Project implementation Risk**
The company is undertaking a capital expenditure plan in FY2020, increasing the installed capacity of the unit to 7000 MT per annum from 5200 MT per annum. The company is going for forward integration by setting up printing cum lamination machine for lamination and printing of sacks. The total estimated project cost is ~ Rs. 10.00 crore. The company plans to avail term loan of ~Rs. 6.50 crore. Further, unsecured loans of Rs. 0.90 crore have been already infused and remaining Rs. 2.60 crore will be managed through internal accruals. Currently, the company has constructed the building from unsecured loans and internal accruals. The financial closure of the debt for the project is yet to happen. The commercial operations are expected to commence from April 2020.

Acuité believes that the company's credit performance over the medium term will be exposed to the moderate execution risk and its ability to generate cash flows will remain a key rating sensitivity.

• **Supplier concentration risk**
The major raw material for RPPL is polypropylene (PP) granules. Majority of the raw material requirement is procured from one supplier i.e. Reliance Industries Limited (RIL), constituting approx. ~51 percent of the total requirement. This limits the bargaining power of RPPL. Further, any change in pricing or disruption of supply from RIL will negatively affect the operations and subsequently the profitability of RPPL.

Rating Sensitivities

- Improvement in scale of operations while maintaining profitability
- Deterioration in working capital cycle.
- Timely execution and implementation of project

Material Covenants
None

Liquidity Position: Adequate

RPPL has adequate liquidity marked by moderate net cash accruals to maturing debt obligations. RPPL generated cash accruals of Rs. 5.27 crore for FY2019 while its maturing debt obligations were Rs. 3.11 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 6.00 crore to Rs. 9.00 crore during 2020-22 against repayment obligation of around Rs. 1.50 crore to Rs. 2.50 crore for the same period. The company has moderate working capital management marked by GCA days of 140 days for FY2019. The bank limit utilization is around 85 percent for the past six months ended August 2019. The current ratio of RPPL stood healthy at 1.70 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of growth in net cash accruals (backed by increase in capacity) over the medium term.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher- than expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case 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 working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	72.49	62.61	61.56
EBITDA	Rs. Cr.	8.47	8.02	10.11
PAT	Rs. Cr.	3.34	3.19	4.49
EBITDA Margin	(%)	11.69	12.87	16.42
PAT Margin	(%)	4.61	5.10	7.30
ROCE	(%)	17.73	18.95	51.83
Total Debt/Tangible Net Worth	Times	0.78	1.10	1.60
PBDIT/Interest	Times	3.97	4.75	6.00
Total Debt/PBDIT	Times	1.94	2.31	1.96
Gross Current Assets (Days)	Days	140	149	141

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-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios and Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not applicable

***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	13.00*	ACUITE BBB- / Stable (Assigned)
Term loan I	Not Applicable	Not Applicable	Not Applicable	1.16	ACUITE BBB- / Stable (Assigned)
Term loan II	Not Applicable	Not Applicable	Not Applicable	0.84	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable (Assigned)

**Includes sublimit of letter of credit to the extent of Rs. 13.00 crore and bank guarantee to the extent of Rs. 1.00 crore.*

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About Acuité Ratings & Research:

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