Poly Pipes India Private Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	5.00	CARE BBB+ (Triple B Plus)	Reaffirmed
Long/Short-term Bank Facilities	99.20 (Enhanced from 59.20)	CARE BBB+/CARE A2 (Triple B Plus/A Two)	Reaffirmed
Total Facilities	**104.20 (Rupees One Hundred & four crore and Twenty lakhs only)**		

Rating Rationale

The ratings assigned to the enhanced bank facilities continue to factor in vast experience and long track record of the promoters of Poly Pipes India Private Limited (PPIL) in trading business, long-standing relationship of the company with reputed suppliers, the presence of wide distribution network and consistently increasing scale of operations & comfortable capital structure.

The ratings are however constrained by the low profitability margins that are inherent to the trading nature of business of the company, exposure to price volatility of traded goods & foreign currency fluctuation associated with imports and highly competitive nature of PVC resin and allied chemicals trading industry.

Going forward, the ability of the company to increase its scale of operations with incremental sales from Chlorinated Poly Vinyl Chloride (CPVC), manage the prices of traded goods & improve its profitability and maintain its capital structure will be the key rating sensitivities.

Background

PPIL is engaged in the business of trading of PVC resin, Lime stone powder, Calcium carbonate, C.P. Plasticizer, Ethyl Vinyl Acetate (EVA), etc. The company is based out of Chennai, Tamil Nadu. PPIL was started as a sole proprietorship entity in 1977 by Mr Rajendra Kumar Hirawat (Chairman and founder) for manufacturing of PVC pipes from scrap. The firm then diversified into trading of PVC resin and Calcium carbonate during the year 1991 and stopped manufacturing activities in 1994. In September 2010, PPIL was incorporated and took over the businesses of three group entities Poly pipes, Prince Polymer, and Pragati Polymer all engaged in trading of PVC resins. PPIL mainly caters to the small and mid-scale scale manufacturers through their 11 stock points located at various places in India.

The key revenue driver for PPIL is PVC resin which comprises of about 90% of the total net sales of the company. PVC resins find application in diverse end user industries such as pipes & fittings, door & window profiles, tubes, rigid films, sheets, cables and wires, vinyl fences, clothing and upholstery, etc. Limestone powder and calcium carbonate are other allied products traded by the company which find application in a wide range of Industries including paints, Master Batches, PVC pipes & Paper.

Credit Risk Assessment

Vast experience of the promoters and long track record in trading business

Mr Rajendra Kumar Hirawat has nearly 40 years of experience in the trading of PVC resin and other allied chemicals. He is supported by his son, Mr Vinay Hirawat (Managing Director) who joined the company in 2004 and has experience in both front-end and back-end of trading business including general management, strategic planning, purchase, marketing, etc. The long standing experience of the promoters in the industry has helped them to forge good relationships with leading domestic and international PVC resin manufacturers and relationship with many customers. The day to day activities of the company is managed by Mr Vinay Hirawat, assisted by qualified professionals.

Long standing relationship with reputed suppliers and presence of wide distribution network

The vast experience of the promoters in the PVC trading business has enabled the company to forge good relationships with leading domestic PVC resin manufacturers. While about 50% of PVC is met via imports due to limited capacity available in the domestic market, majority of the limestone and calcium carbonate quantities are also imported. PPIL meets majority of its PVC domestic purchase requirement from DCW Ltd as its manufacturing units are located in South India and the remaining from dealers in nearby districts (on a need basis). The Promoters have been in business relationship with DCW Ltd for over two decades. In the case of imports, PPIL has supplier base in Taiwan, Vietnam, Malaysia and China from players such as LG Chem,

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications*

China General Plastics Corporation, Formosa Plastics, etc. The Company is one of the distributors of Taiwan based Formosa Plastic corporation.

PPIL has the capability of stocking more than 7,500 MT of petrochemical products at any point in time in its eleven warehouses/ stock points at Chennai, Salem, Coimbatore, Madurai, Pondicherry, Tuticorin (all in Tamil Nadu); Nellore and Nalgonda Dist (in Andhra Pradesh); Bangalore, Kolkata and Bhubaneswar (in East India). While Chennai and Kolkata act as mother stock points with stocking area of about 70,000 sq. ft., all other stock points act as a just-in-time basis with stocking area of about 4000-5000 sq. ft. Through these touch points PPIL caters to the specific requirements of customers in South and East India. However, a major part of the sales of PPIL is concentrated towards Tamil Nadu. While the company has a long standing relationship with its Tamilnadu clients it has been trying to diversify the geographical distribution of its operations.

During FY15 (refers to the period April 1 to March 31), PPIL has increased its sales in Karnataka, Andhra Pradesh, Orissa and has retained operations in the regions that have come under the state of Telangana. However, Tamilnadu continues to contribute the largest proportion of PPIL's sales.

Increasing scale of operations in FY15

During FY15, the total operating income of the company witnessed a year-on-year growth of 8.52% from Rs.433 crore in FY14 to Rs.470 crore in FY15. Furthermore, during H1FY16, the company reported a total operating income of Rs.281.77 crore, an annualized growth of 19.9% over FY15. The growth in revenues is mainly on account of increase in the sales volumes &realizations of PPIL's high margin products – limestone & calcium carbonate whose volumes grew at a rate of 53% and 50% respectively considerably during FY15. In H1FY16 also the sales of these products showed a healthy growth rate of 18% & 75% respectively. The company expects to see growth in the new CPVC segment with DCW's agreement to distribute CPVC from the last quarter of FY16. This product addition is expected to further increase the revenues from FY17 onwards which will be the first full year of CPVC sales.

Working capital intensive nature of operations

PPIL had an operating cycle of 37 days in FY15. PPIL procures PVC and other allied chemicals from its domestic suppliers on a just in time basis. However, due to lead time of around 60 days for imports, the company maintains inventory for a period of around 20 - 25 days. In case of domestic purchases, company gets a credit period of around 5 days. Average creditors period was 7 days as at end of March 2015. The company gives credit period up to 90 days to its customers. As a trading company most of the capital employed by the company is deployed in the working capital of the company. The Company meets its working capital needs from both its internal sources and through working capital bank facilities which are mostly non fund based. The average month-end utilization level for these facilities stood at 68.12% for the past 12 months ended September 2015.

Low profitability margins inherent to trading nature of business

Inherent to the trading nature of business, the profitability margins has remained relatively low in the past. However, margins of the company have been showing improvement in the last three years as a result of increasing sales volume in high margin products like limestone and calcium carbonate, along with efficiency achieved in procurement and distribution. The PBILDT margin of PPIL was 3.11% in FY15 as against 2.36% in FY14 mainly contributed by high margin products. However, going forward, with incremental volumes from CPVC which is a low margin product, the profitability is expected to slightly moderate.

Exposure to price volatility of traded products and foreign currency fluctuation

PVC resin is a commodity wherein the everyday selling price factors in the daily international prices and the exchange rate. Typical of any trading business, PPIL doesn't have any long term contract with the raw material suppliers for PVC. However, the company's long term relationship with DCW has been providing support for procurement of supplies. For procuring Calcium carbonate & Limestone, the company has entered into contracts with players in Vietnam, Malaysia. However, the procurement of most of the material is based on estimates and expected demand and is generally not backed by orders. As a result, PPIL remains exposed to the volatility in PVC resin and other allied chemicals prices. However, PPIL manages the same by maintaining constant churn in its inventories on daily basis thereby mitigating the risk of price volatility to an extent. For Calcium Carbonate & Limestone the clients are long term clients and the churn is very low in these segments.

Meanwhile, while almost 50% of the total purchase requirement of the company is met through imports from Taiwan, Vietnam, Malaysia and China, the entire sales of PPIL is in the domestic market. Hence, the company is exposed to foreign exchange fluctuations. The company has buyer's credit facility for import purchases and the import billing is done in USD. The professionals in PPIL decide on hedging of forex risk on a case to case basis and generally 60- 70% of the total exposure is hedged and remaining exposure is kept open to take advantage of any favorable movement in the exchange rates.

Comfortable capital structure & coverage ratios

The capital structure of the company continued to remain comfortable during the year ended March 2015. T In FY15, the promoters have infused equity to the tune of Rs.7.5 crore and have also brought in unsecured loans amounting Rs.8.91 crores. The total unsecured loans from promoters as on March 31, 2015 stood at Rs. 20.77 crore. Considering the unsecured loans as quasi equity, the overall gearing stood comfortable at 0.76x as on March 31, 2015. The company has extended a loan of Rs.15 crore to DCW Ltd for completion of its CPVC plant.The coverage ratios of the company also remained comfortable with interest coverage ratio of 4.26 times in FY15 and total debt to GCA of 4.68 years as on March 31, 2015.

Highly competitive nature of PVC resin and allied chemicals trading industry

The PVC resin trading industry is characterized by low entry barriers due to minimal capital required and commodity nature of product which has resulted in proliferation of large number of small and large traders spread across the country. Highly fragmented nature of the industry has resulted in intense competition within the industry resulting in very thin profit margins. In case of Calcium carbonate & Limestone, though the margins are healthy, the products are accepted by the clients only after adequate tests for the specifications. However, the Company's strong credentials and long term relationship with its clients and suppliers enable it to maintain and improve its standing in the industry.

In the past few years ended March 2015, the company has been able to consistently increase its operating income and profitability due to significant y-o-y increase in its value added products like limestone and calcium carbonate. However, going forward, with these products expected to grow at a nominal rate due to limited demand and with the company starting to increase the sales of low margin volume driven products like PVC and CPVC, though the operating income would see a consistent growth, the profitability of the company will be affected moderately. The ability of the company to manage the prices of its traded goods and monitor the foreign exchange volatility will be key to its prospects in the years to come.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2013 (12m, A)	2014 (12m, A)	2015 (12m, A)
Working Results			
Total Operating Income	303	433	470
PBILDT	5	10	15
Interest	2	5	3
PBT	3	5	11
PAT	2	3	7
GCA	2	4	8
Financial Position			
Equity Share capital	2	2	4
Net Worth	15	24	48
Total Capital Employed	39	67	84
Key Ratios			
Growth (%)			
Growth in Total income (%)	35.27	43.07	8.52
Growth in PAT (after Deferred Tax) (%)	247.78	70.16	116.82
Profitability (%)			
PBILDT / Total Operating Income	1.60	2.36	3.11
PAT / Total Operating Income	0.67	0.79	1.58
ROCE	17.31	19.62	21.39

RONW	20.86	17.42	20.73
Solvency(times)			
Long Term Debt Equity Ratio	0.00	0.00	0.00
Overall Gearing (Times)	1.53	1.78	0.76
PBILDT/Interest (Times)	2.80	2.06	4.26
PBIT/Interest (Times)	2.74	2.03	4.17
Term Debt/GCA	0.00	0.01	0.00
Total Debt/GCA	11.08	11.81	4.68
Liquidity (times)			
Current ratio	1.56	1.49	2.02
Quick ratio	1.19	0.86	1.43
Avg. Collection Period (days)	15	18	22
Avg. Inventory (days)	11	16	21
Avg. Creditors (days)	6	1	7
Operating. cycle (days)	20	33	37

A: Audited

Details of Rated Facilities

1.Long-term facilities
1.A. Fund-based limits (Rs. Cr)

Sr. No.	Name of Bank	Fund-based Limits	
		CC*	**Total fund-based limits**
1	State Bank of India	5.00	5.00
	TOTAL	**5.00**	**5.00**

**CC=Cash credit*

Total long term facilities - Rs.99.20 crore

2.Long/Short-term facilities
2. A. Fund/Non-fund-based Facilities (Rs. Cr)

S. No.	Name of the Bank	Facility	Rated Amount	Remarks
1.	Standard Chartered Bank	Import Letter of Credit	33.20	Sublimit: Overdraft facility = Rs. 7.00 crore Buyer's credit = Rs. 27.00 crore Bank Guarantee = Rs. 0.40 crore
2.	DBS Bank	Letter of Credit/ Buyer's credit	26.00	Sublimit: Overdraft = Rs. 4.00 crore Working capital Loan = Rs. 4.00 crore
3.	State Bank of India	Letter of credit/ Buyer's credit	40.00	
	Total Long/Short – term Facilities		**99.20**	

Total long/short-term facilities - Rs.99.20 crore

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(This follows our brief rationale for entity published on 07 January, 2016)

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