

Rattan Polychem Private Limited

May 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	13	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	12 (Enhanced from 5)	CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)	Reaffirmed
Short-term Bank Facilities	5	CARE A4 (A Four)	Reaffirmed
Total	30 (Rupees Thirty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Rattan Polychem Private Limited (RPPL) continue to remain constrained by modest scale of operations, leveraged capital structure, working capital intensive nature of operations and its exposure to raw materials price fluctuation risk. The ratings, however, continue to draw comfort from the experience of the promoters, moderate profitability margins and proximity to raw material sources alongwith favorable demand outlook. Going forward, the ability of RPPL to increase its scale of operations while maintaining its profitability margins, and effective management of working capital will be the key rating sensitivities.

Detailed description of Key Rating Drivers

Key Rating Weakness

Modest though growing scale of operations: Despite the growth registered on a y-o-y basis in last 3 financial years (FY14-FY16 – refers to the period April 1 to March 31) the scale of operations stood modest which limits the company's financial flexibility in times of stress and deprives it of scale benefits.

Leveraged capital structure: The capital structure of the company continues to be leveraged mainly on account of high debt levels and higher utilization of working capital limits as on balance sheet date coupled with low net worth base.

Working capital intensive nature of operations: The operations of the company are working capital intensive on account of high dependence on working capital borrowings from banks resulting in average utilization of 95% during the last 12 months ending on February 28, 2017. The inventory holding period improved in FY16 on account of change in business strategy whereby the company has adopted just-in time approach for procurement of raw material. Furthermore, the company has collection period of three months and receives payable period of around one month from its suppliers.

Exposure to raw materials price fluctuation risk: The primary raw materials required by RPPL are styren and pentane which are crude oil derivatives, the prices of which are highly volatile and indirectly dependent on crude oil prices. In the absence of any long-term arrangement for its raw materials due to the low bargaining power against the suppliers and high competition in the industry the operating margin of the company is susceptible to volatility in input prices.

Key rating strengths

Experienced promoters: The promoters of the company have an experience of around more than a decade in the manufacturing industry through their association with this company.

Moderate profitability margins and coverage indicators: The PBILDT margins of the company declined marginally however continues to be moderate on account of increase in material cost. Furthermore, PAT margins improved on account of better absorption of interest and depreciation charges. Also, owing to moderate profitability debt coverage indicators continues to remain moderate for FY16.

Favorable demand outlook for expandable polystyrene: The demand for expandable polystyrene (EPS) resin depends on the demand from consumer durables, FMCG sector and other manufacturing industries, which use Thermo Cole sheets for packaging purposes. Favorable demographics and increasing consumer spending are some of the factors that are likely to boost the demand for EPS resin. Furthermore, the manufacturing facility of the company is located in NCR region which provides easy access to raw materials and less logistics charges alongwith ready market for its finished products.

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

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

CARE's methodology for manufacturing companies

Financial ratios – Non-Financial Sector

About the Company

Faridabad-based (Haryana) RPPL incorporated in December 03, 2009 and was promoted by Mr Yashvir Singh Dagar and Mrs Darshana Dagar. The company has been engaged in the manufacturing of expandable polystyrene (EPS) of various grades ranging from RPCL 1218 to RPCL 9100. The manufacturing facility of the company is located at Faridabad, Haryana with an aggregate installed capacity of 5,800 metric ton per annum as on March 31, 2016. EPS is a major raw material for manufacturing of 'Thermo Cole' products which finds applications in thermal insulation of buildings, cold storage, industrial refrigeration and air conditioning. RPPL mainly imports raw material namely styrene and sells the EPS in the domestic market through its own network. Furthermore, the company sells EPS to packing material and construction companies in Gujarat, Haryana, Uttarakhand, Uttar Pradesh, Delhi, Chennai and Rajasthan.

RPPL achieved a total operating income (TOI) of Rs.69.87 crore with PBILDT and profit after tax (PAT) of Rs.4.56 crore and Rs.0.77 crore respectively in FY16 (refers to the period April 01 to March 31), as against TOI of Rs.41.24 crore with PBILDT and PAT of Rs.3.34 crore and Rs.0.40 crore respectively in FY15. For 11MFY17 (refers to period April 1 to February 28, based on provisional results), the company achieved sales of Rs.80 crore.

Status of non-cooperation with previous CRA: Rating suspended by ICRA in July 2016, on account of absence of information from client.

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	13.00	CARE BB; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	12.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	5.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	13.00	CARE BB; Stable	-	1)CARE BB (29-Jul-16)	1)CARE BB (14-Mar-16) 2)CARE BB- (05-Jun-15)	-
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	12.00	CARE BB; Stable / CARE A4	-	1)CARE BB / CARE A4 (29-Jul-16)	1)CARE BB / CARE A4 (14-Mar-16) 2)CARE BB- / CARE A4 (05-Jun-15)	-
3.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A4	-	1)CARE A4 (29-Jul-16)	-	-

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