

Polyspin Exports Limited

August 03, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	23.11 (Enhanced from 20.73)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	62.75 (Enhanced from 61.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	85.86 (Rs. Eighty-Five Crore and Eighty-Six Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Polyspin Exports Limited (PEL) continue to derive strength from vast experience of the promoters and operational track record of PEL for more than two decades in the polypropylene segment and locational advantage of the unit. The ratings also factor in the growth in the scale of operations and comfortable liquidity position of the company.

The ratings, however, continue to be constrained by its moderate financial risk profile, susceptibility of profits to volatile raw material prices and the presence of the company in the intensely competitive packaging industry.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Consistent growth in scale of operations above the range of Rs.300 crore
- Stabilize profitability levels at PBILDT range of 9%-10%
- Consistent improvement in gearing levels below 0.80-1.00x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any debt-funded capital expenditure deteriorating the capital structure leading to gearing levels >2x
- Continued pandemic of covid-19 resulting in deterioration of order book

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters and operational track record of more than three decades

PEL is into the field of poly propylene product business since 1985. The promoters were initially into manufacturing of HDPE/PP bags and thereafter started production of FIBC bags. As a diversification process, textile unit was started by the promoters. Due to its long operational track record of more than two decades in the packaging industry, the company has forged good relationships with its customers and suppliers.

Locational advantage of the unit out of its proximity to Tuticorin Port

PEL's FIBC unit is 100% export-oriented and imports a considerable part of its raw materials from foreign countries. Tuticorin port is located within 130 kms from the unit, making it cheaper for transportation of goods and the lead time for transportation is also less due to its location.

Stable operational profile backed by robust sales growth in FY21

The company's revenue witnessed a robust growth of more than 30% in FY21 (refers to the period April 1 to March 31) at Rs.238 crore in FY21 due to favourable demand from the US market with a portion of the Chinese orders being diverted to India post outbreak of covid-19. In FY21, the company had also started manufacturing of paper bags on a small scale meant for the cement companies. However, with higher international raw material prices and subdued demand from the end user industries on account of covid second wave, the activity has been

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

discontinued. The idle capacity instead has been well utilized in manufacturing of Jumbo FIBC Bags which is expected to support the growth in scale going forward.

Key Rating Weaknesses

Moderate financial risk profile

PEL's overall financial risk profile is moderate comprising borrowing in the form of term loan and working capital. The overall gearing as on March 31, 2021, stood moderately leveraged at 1.74x on account of high working capital borrowings. However, with healthy accruals and term loan repayments, the capital structure has been maintained at moderate levels. Further, the debt coverage indicators stood moderate with total debt to GCA at 7.16 years on March 31, 2021, and interest coverage ratio at 3.54 for FY21.

Raw material price dependent on crude oil price which is volatile

PEL's major raw material is Poly Propylene granule which is derived from crude oil. Price of PP granule is volatile in nature, since it is dependent on the movement of crude oil prices. The PBILDT margins of the company witnessed a marginal moderation from 9.41% during FY20 to 8.56% during FY21 due to Lower realizations in paper division. Furthermore, the profits of PEL are also exposed to foreign currency movements, however, PEL enters into forward contracts for its open export receivables as measure of hedging against the volatile currency movements.

Highly competitive Packaging Industry

The Packaging industry is highly fragmented and competitive with presence of large and small players who operate across the FIBC and other packaging segments. PEL faces competition from un-organized local players in terms of pricing and market share. However, Packaging industry requires highly skilled human capital along with the market expertise and experience in terms of supplies to the reputed clientele in US and Europe which acts as a barrier for new players to sustain the business.

Impact of covid-19 and Industry prospects

With the onset of second wave of covid-19 pandemic and ensuing lockdown in the state, PEL's unit was shut for a period of one week in the month of May 2021, but subsequently opened with 50% local workforce from April 16, 2020, and has been operating continuously since then with full capacity. As such, there is no major impact on production or revenue.

Packaging Industry was one of the few industries which remain unaffected due to covid -19 and witnessed significant growth during the period. Consumer habits changed significantly during the pandemic. Home delivery of food and consumer products increased demand for packaging containers and the cartons they are sold or shipped in. The e-commerce side of consumer products exploded. During the pandemic, various industries were considered essential and were never locked down, including the packaging industry, food & beverage and medical, maintaining demand for packaging. In mid-April of 2020, the packaging industry continued to operate at between 83-95% capacity. The main drivers during the pandemic include the increased demand for 'fast-moving consumer goods' (FMCG), pharmaceutical packaging and rising e-commerce sales due to the lockdown.

Liquidity: Adequate

The liquidity of the company is adequate with sufficient cushion in accruals against moderate term debt repayment obligations. The operating cycle of the company remains moderate at 83 days during FY21 with an inventory period of 61 days. Current ratio of PEL stood at 0.99 as on March 31, 2021, due to high level of short-term borrowings. The average working capital utilization of Fund based Limits stood moderate at 70% for the past 12 months ended June 2021. The company had unencumbered cash and bank balance of Rs four Crores as on March 31, 2021. Going forward, PEL's liquidity is expected to remain comfortable on the back of healthy cash accruals.

Analytical approach: Standalone

Applicable Criteria

[CARE's methodology for manufacturing companies](#)
[Criteria on assigning Outlook and Credit watch to Credit Rating](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology for Cotton Yarn Industry](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

PEL is a 100% EOU promoted in 1985 as limited company by Mr R Ramji (MD). PEL was initially into manufacturing of HDPE/PP bags and has started full-fledged production of Flexible intermediate bulk container (FIBC) bags from 1996. Over the years, PEL has developed an integrated manufacturing facility for FIBC with periodical up-gradation and innovation and has total capacity of 12000 MT as on March 31, 2021. Along with the FIBC division, PEL also has capacity to produce 300 MT PP woven fabric, 1500 PP yarn and textile division with 2400 rotors manufacturing cotton yarn as on March 31, 2021. PEL has a windmill with 250 KVA capacity for its captive consumption purposes. PEL's products are primarily used in fertilizer, building material, chemical and cement industry. The day-to-day management of the company is done by Mr R Ramji (MD) & Mr Ponram Barathy (ED) along with well qualified professionals.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	172.23	238.97
PBILDT	16.20	20.44
PAT	5.25	7.45
Overall gearing	1.62	1.74
Interest coverage (times)	3.09	3.54

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified PEL as "Non cooperating" vide its press release dated July 30, 2020.

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of Rated Instrument: Detailed explanation of covenants of the rated instrument is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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-Term Loan	-	-	March 2026	9.81	CARE BBB-; Stable
Fund-based - ST-Foreign Demand Bills Payable	-	-	-	25.00	CARE A3
Fund-based - LT-Cash Credit	-	-	-	13.30	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	32.00	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	5.75	CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	9.81	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Aug-20)	1)CARE BBB-; Stable (03-Jul-19)	1)CARE BB+; Stable (26-Jul-18)
2.	Fund-based - ST-Foreign Demand Bills Payable	ST	25.00	CARE A3	-	1)CARE A3 (05-Aug-20)	1)CARE A3 (03-Jul-19)	1)CARE A4+ (26-Jul-18)
3.	Fund-based - LT-Cash Credit	LT	13.30	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Aug-20)	1)CARE BBB-; Stable (03-Jul-19)	1)CARE BB+; Stable (26-Jul-18)
4.	Fund-based - ST-EPC/PSC	ST	32.00	CARE A3	-	1)CARE A3 (05-Aug-20)	1)CARE A3 (03-Jul-19)	1)CARE A4+ (26-Jul-18)
5.	Non-fund-based - ST-BG/LC	ST	5.75	CARE A3	-	1)CARE A3 (05-Aug-20)	1)CARE A3 (03-Jul-19)	1)CARE A4+ (26-Jul-18)

LT- Long term/ ST- short term

Annexure 3: Detailed Explanation of covenants of the rated instruments/facilities: N.A**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-EPC/PSC	Simple
4.	Fund-based - ST-Foreign Demand Bills Payable	Simple
5.	Non-fund-based - ST-BG/LC	Simple

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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