

Precision Plastic Industries Private Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities – Term Loan	18.74 (27.84)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long term Bank Facilities – Cash Credit Limit	35.00 (35.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short term Bank Facilities – Non Fund Based- LC/BG Limits	12.00 (12.00)	CARE A3 (A Three)	Reaffirmed
Total Facilities	65.74 (Rs. Sixty-Five Crore and Seventy-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Precision Plastic Industries Private Limited (PPIPL) continues to derive strength from vast experience of its promoters in the pipes and fittings industry, established position of the PPIPL in electrical conduit pipes with large distribution network and pan India presence.

PPIPL reported a moderation in its Total Operating Income for FY20 due to decline in its sales volume across the product line on back of slow-down in the order flow. Operating margins have remained at the same levels in FY20 as compared to FY19. During H1FY21, income was impacted owing to government-imposed lockdown to curb the CoVID 19 spread. However, post relaxation of lockdown, company operations are back to normal and has reported better sales till November 2020. The rating also factors in the modest debt coverage indicators.

The above mentioned rating strengths, however, are tempered by significant dependence on real estate segment for its sales, modest scale operations, susceptibility of profit margins to fluctuations in PVC (Poly vinyl chloride) resin prices on back of its limited ability to pass on the price rise owing to stiff competition.

Outlook: Revised from 'Negative' to 'Stable'

The revision in outlook factors in the CARE's belief that approval of two-way interchangeability between Fund Based and Non-Fund Based limits upto Rs 10 crores which will provide enhanced cushion to the liquidity. Further the operations are back to pre-Covid levels with month on month sales higher than previous year from August 2020 onwards which is expected to continue till year end resulting in improved margins.

Rating Sensitivities

Positive Factors

- Increase in PBILDT margin above 12% on sustained basis
- Overall gearing below 1x on sustained basis

Negative Factors

- Decline in PBILDT margin below 8% on sustained basis
- Decline in PBILDT / Interest coverage below 2.43x on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter in the Industry

PPIPL was promoted by Late Mr. Sunil Kadakia a first generation entrepreneur having almost four decades of experience in PVC pipe industry. Currently the company is headed by Mr. Kunal Kadakia (son of Late Mr. Sunil Kadakia) having experience of more than a decade in the industry. Mr. Kadakia is assisted by a group of qualified professionals in his day to day operations.

Recognized brand in the electrical pipes and fittings segment with pan India presence backed by well-established distribution network

With presence of more than two decades in the industry, the company has been able to create niche for Precision brand in the electrical pipes and fitting segment. PPIPL has 175 distributors spread across the country with majority in western India. PPIPL's presence is more concentrated towards western region as it derived around 70% of its total revenue from this region in FY20.

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

Key Rating Weaknesses

Modest scale of operations with sales decline in FY20; while H1FY21 remained muted on back of COVID lockdown and muted demand from real estate sector

In FY20, PPIPL's Total Operating Income (TOI) decline by 11.79% on account of decline in sales volume across the segments. PPIPL derives around 72% of its revenue from PVC conduit pipes and fittings. PVC conduit pipes and fittings are used mainly in electrical wirings and hence its demand is largely linked to growth in real estate segment. Subdued real estate market with decline in new project launches resulted in muted domestic demand of conduit pipes in FY20 leading to decline in sales volume. In H1FY21, PPIPL's reported declined in sales by 32.76% in comparison to H1FY20 due to weak Q1FY21 on account of nationwide lockdown implemented in the month of April due to COVID-19 Pandemic. However, post relaxation of lockdown the sales has improved and are back to pre-Covid levels.

Susceptibility of its operating profit margin to fluctuations witnessed in key raw materials and limited ability to pass on the price rise owing to stiff competition

PPIPL's major raw material is PVC resin, which forms slightly over 80% of total raw materials consumed in the production. Besides, other chemicals consumed during manufacturing are also crude oil derivatives. Crude oil being volatile in nature, it affects company's input cost. However, PPIPL is unable to pass on the increase in input cost due to stiff competition in the industry. PPIPL has a practice of revising product prices in each quarter. In FY20, PPIPL's PBILDT margin has dropped by 23 bps primarily due to increased prices of PVC resin as well as other additives in accordance with crude oil prices fluctuations in the last 12 months. In H1FY21 also PBILDT margin remained stagnant on YOY basis on account of nationwide lockdown.

Moderate leverage and debt coverage indicators

PPIPL's overall gearing has improved to 1.20x as on March 31, 2020 from 1.42x on March 31, 2019 due to scheduled repayment of long term loan coupled with increased tangible net worth led by accretion of profits. PPIPL's overall gearing is envisaged to improve in upcoming years as high term loan repayments are scheduled, which will decrease total debt of the company significantly. Despite of decline in PBILDT, Interest coverage indicators have remained at similar levels in FY20 as compared to FY19 on account of reduced interest expense in FY20 over FY19. TD/GCA and TD/PBILDT has deteriorated on account of decline in PBILDT and GCA, which was attributed to decline in sales for FY20.

Susceptibility to fluctuations in forex rates

Being a net importer, the company is also exposed to forex fluctuation to the extent of un-hedged imports as the company does not have any formal hedging policy. In FY20 PPIPL's net exposure has increased to Rs.7.25 crore from Rs.2.02 crore in FY19. PPIPL has a practice of hedging 50% of the net exposure by entering into forward contracts. During FY20, the company had foreign exchange fluctuation loss of Rs.0.05 crore as against of Rs.0.08 crore gain in FY19.

Liquidity: Stretched – the company is expected to achieve GCA of Rs.12-14 crores in FY21 against which the company the debt repayment of Rs. 6.38 crore. The free cash and bank balances stood at 0.12 crore as on March 31, 2020. The average un-utilized fund based limits amounts to Rs. 2.30 crores. The approval of two-way interchangeability between FB limits and NFB limits of 10.00 crores will provide enhanced cushion for the company. Also, comfort can be drawn from past demonstrated track record of financial support by promoters in terms of equity infusion and unsecured loan provided to the company.

Analytical approach: Standalone

Applicable Criteria

[Criteria on rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Manufacturing companies](#)

[Financial ratios - Non-financial Sector](#)

[Criteria for Short term Instruments](#)

[Liquidity Analysis of Non-Financial sector entities](#)

About the Company

Established in 1995, Precision Plastic Industries Pvt Ltd (formerly known as Precision UPVC Moulders Pvt Ltd) (Precision) is engaged in the business of manufacturing Polyvinyl Chloride (PVC) conduit pipes & fittings, CPVC (Chlorinated polyvinyl chloride) pipes & fittings, irrigation pipes & agriculture fittings, sewerage waste and rainwater pipes & fittings, corrugated pipes, panel trunkings and fabricated fittings. The company has its manufacturing facility in Haridwar (Uttarakhand), Daman, Talasari (Maharashtra) and Bangalore with combined capacity of 38,250 MTPA. The pipes manufactured by the company find application in irrigation, agriculture, potable water supply schemes, sewerage and drainage systems, construction industry,

telecom industry and bore/tube well for underground water suction. Precision products are available across India through its network of distributors.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)	H1FY21(UA)
Total operating income	247.98	218.76	75.00
PBILDT	24.15	20.79	6.51
PAT	2.58	3.82	-1.26
Overall gearing (times)	1.42	1.20	1.22
Interest coverage (times)	2.43	2.44	1.84

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: CRISIL had suspended ratings for PPIPL on account of non-cooperation by the company on November 26, 2013

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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	-	-	-	18.74	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	12.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	18.74	CARE BBB-; Stable	-	1)CARE BBB-; Negative (06-Dec-19)	1)CARE BBB-; Stable (27-Jul-18)	1)CARE BBB; Stable (24-Nov-17)
2.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (06-Dec-19)	1)CARE BBB-; Stable (27-Jul-18)	1)CARE BBB; Stable (24-Nov-17)
3.	Non-fund-based - ST-BG/LC	ST	12.00	CARE A3	-	1)CARE A3 (06-Dec-19)	1)CARE A3 (27-Jul-18)	1)CARE A3 (24-Nov-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

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.	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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