# Captain Polyplast Limited

February 08, 2021

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 14.48 | **CARE BB+; Stable (Double B Plus; Outlook: Stable)** | Assigned |
| Long Term Bank Facilities | 38.09 (Reduced from 38.67) | **CARE BB+; Stable (Double B Plus; Outlook: Stable)** | Reaffirmed |
| Short Term Bank Facilities | 71.68 (Reduced from 81.68) | **CARE A4+ (A Four Plus)** | Reaffirmed |
| **Total Bank Facilities** | **124.25 (Rs. One Hundred Twenty-Four Crore and Twenty-Five Lakhs Only)** | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Captain Polyplast Limited (CPPL) continue to remain constrained on account of its moderate scale of operations, dependence on government agencies for receipt of subsidies in its micro irrigation system (MIS) business and high reliance on bank borrowings to fund the working capital requirements amidst elongated payments of these subsidies, its moderate capital structure and debt coverage indicators and stretched liquidity.

The ratings, however, continue to derive strength from CPPL's experienced promoters, its established operations in MIS business with reputed clientele and geographic diversification of its operations over last few years with sales in states other than Gujarat. The ratings also factor in the growth in its total operating income (TOI) and profitability during FY20 & H1FY21 (FY refers to the period from April 1 to March 31), alongwith commencement of engineering, procurement and construction (EPC) of solar power plants, during FY21.

**Rating Sensitivities**

**Positive Factors**

- Increase in total operating income (TOI) beyond Rs.300 crore through healthy volume driven growth in MIS business and stabilization of solar EPC business, along with sustenance of PBILDT margin at over 15%
- Improvement in overall gearing to 1.20x on sustained basis, with reduced reliance on external borrowings to fund working capital requirements
- Reduction in gross working capital cycle (receivables + inventory) to less than 200 days

**Negative Factors**

- Decline in TOI to below Rs.120 crore
- Decline in PBILDT margin to below 10%, on sustained basis
- Elongation in gross working capital cycle to beyond present level of around 360 days with further increase in working capital borrowings to fund these requirements
- Any major write offs in the inventory or non-recovery of any major receivable
- Any large-sized debt funded capex adversely affecting the debt coverage indicators and liquidity

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

***Moderate scale of operations:*** The scale of operations of CPPL increased y-o-y by 26% during FY20 vis-à-vis FY19 levels; albeit continued to remain moderate at Rs.189.54 crore. Apart from MIS business, company also earns commission income as a del-credere agent for polymers; however its contribution in company's total revenue profile is marginal.

Further, during H1FY21, the company reported TOI of Rs.74.41 crore, largely in line with H1FY20 level. Operations of the company were shut down for few days in the months of March and April 2020, due to a nationwide lockdown announced by the government on account of outbreak of Covid-19 pandemic. Post this, company resumed full-scale operations.

CPPL had moderate order book of ~Rs.26 crore for its MIS business as on December 28, 2020. Furthermore, during FY21, CPPL commenced EPC of solar power plants which is expected to sizeably contribute to its revenue from FY22 onwards, as indicated by orders under pipeline of around Rs.172 crore as on December'20 end. While present order

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

book provides moderate revenue visibility to the company, successful execution of the newly ventured solar power plant segment shall remain crucial for company's prospects.

***Elongated collection of government subsidies resulting in elevated working capital requirements:*** CPPL's collection period continued to remain high (at around 236 days in FY20, increased from around 162 days in FY18) due to delays in recovery from customers in its MIS business, which are primarily government agencies in various states (acting as the nodal agency for the MIS business in that state). These include long-outstanding receivables from Andhra Pradesh Micro Irrigation Project (APMIP) forming around 20-25% of total receivables. This apart, company is also required to provide credit under its del credere agency business for polymers of Indian Oil Corporation Ltd. (IOCL).
This results in sizeable working capital requirements, which are funded mainly through bank borrowings including dealer financing limits of IOCL, alongwith creditors. Thus, dependence on bank debt remains high in light of elevated working capital requirements.

***Moderate capital structure and debt coverage indicators:*** Capital structure of CPPL remained moderate with an overall gearing (incl. acceptances) of 1.61x as on March 31, 2020, albeit with marginal improvement from FY19 level of 1.82x owing to accretion of profits to reserves. Total outside liabilities to tangible networth (TOL/TNW) continued to remain high at 2.96x as on March 31, 2020 (3.33x as on March 31, 2019) due to significant credit availed by the company to fund its working capital requirements.
Debt coverage indicators of the company continued to remain moderate, marked by total debt/GCA of 5.16x (P.Y.:8.47x) and PBILDT interest coverage of 3.12x (P.Y.: 2.59x) during FY20. Marginal improvement in the same was due to improved generation of cash accruals during FY20; though debt levels continued to remain elevated owing to higher working capital borrowings and term debt availed for recently completed capacity expansion. CPPL's overall gearing and debt coverage indicators continued to remain moderate as on September 30, 2020.

***Dependence on the agricultural sector and government policies; albeit favourable growth prospects for MIS sector:*** Around 50% of the arable land in India is rain-fed and the problem of water scarcity prevails in the country, thus there is a huge potential for the growth of MIS in the nation. However, demand for MIS products is subject to risks associated with the vagaries of nature, seasonality and government policies, including payment of subsidy.

***Liquidity – Stretched:*** Liquidity of company continues to remain stretched, marked by an elongated working capital cycle of 192 days during FY20 (P.Y.: 182 days). This is largely driven by significant investment required in both receivables (inherent to the MIS business) as well as inventory (as it maintains adequate inventory for its peak delivery season). These result in high utilization of the working capital limits, which averaged at 73% for trailing twelve months ended December 2020, with peak utilization during select months remaining high at around 90-95%. Also, cash flow from operating activities (CFO) has remained minimal/negative during last three years ended FY20, funded through incremental working capital limits.
CPPL's cash accruals are expected to adequately meet its moderate debt repayment obligations of Rs.3 to 5 crore over next two years; however timely recovery of outstanding receivables from various state governments would remain crucial for the company, as any inordinate delays in the same would result in further pressure on company's liquidity.
CPPL had availed moratorium for the period March 2020 to August 2020 from one of its two lenders on working capital limits; an option provided by RBI as a Covid-19 pandemic relief measure. Furthermore, to aid its liquidity, it has availed covid emergency line of credit from its lenders. Company had not availed moratorium from the other lender.

**Key Rating Strengths**
***Experienced promoters and established track record of operations in MIS business:*** The promoters of CPPL, Mr. Ramesh Khichadia and Mr. Gopal D. Khichadia, have over two decades long experience in the MIS business. Mr. Ramesh Khichadia (B. Tech in Agriculture Engineering), key promoter and managing director, has more than two decades of experience in irrigation system implementation. Further, Mr. Ritesh Khichadia (BTech and MBA), son of Mr. Ramesh Khichadia, was appointed as whole-time director during FY21.
Furthermore, company has established operations in MIS business. Presently, CPPL is registered as an authorized and registered supplier for MIS for around 16 state government authorities, including Gujarat, Andhra Pradesh, Tamil Nadu, Karnataka and Telangana. In addition to its primary manufacturing facility located near Rajkot in Gujarat, CPPL established its manufacturing facility at Kurnool in Andhra Pradesh, which commenced operations from May 2019. The products from this facility are supplied to South Indian states.

***Reputed clientele with gradual geographic diversification:*** Over the last few years, CPPL has focused on diversification of its revenue by expanding its presence in states other than Gujarat. As a part of this, CPPL has obtained/renewed licenses to operate as an authorized supplier for MIS for 16 states in India, which has reduced its dependency on Gujarat. However, Gujarat continues to be the largest revenue contributor for CPPL due to its established presence in the state, with over 35-40% contribution to sales in last three years ended FY20.

***Improvement in profitability; albeit susceptible to volatile input prices:*** Company's profitability improved significantly during FY20, as indicated by a PBILDT margin of 16.64% registered during FY20 (P.Y.: 12.65%) and PAT margin of 6.65% (P.Y.: 4.79%). This was mainly on account of growth in TOI, leading to better absorption of fixed overheads, along with lower raw material prices. The company also benefits in terms of price and availability of various types of polymers, its key raw material, being an agent and stockist of the same. During H1FY21, profitability of the company remained stable, with a PBILDT margin of 17.44% and PAT margin of 6.29%.
Company's profitability, however, remains susceptible to volatile prices of granules, which are a derivative of crude oil and are thus impacted by fluctuations in the prices of the latter.

**Analytical Approach:** Standalone

**Applicable Criteria**
Criteria on assigning Outlook and Credit Watch 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
Liquidity Analysis of Non-Financial Sector

**About the Company**
Rajkot, Gujarat based CPPL was established in March 1997 by Mr. Ramesh Khichadia along with two other business associates. CPPL is engaged in the business of manufacturing and assembling of irrigation equipment including drip irrigation and sprinkler systems, high density polyethylene (HDPE) pipes, PVC pipes and other allied products related to MIS. As on March 31, 2020, CPPL had an installed capacity to manufacture 8,200 metric tons per annum (MTPA) of MIS equipment of various grades at its manufacturing facility located at Shapar near Rajkot in Gujarat. Further, in May 2019, CPPL commenced production at its greenfield facility at Kurnool, Andhra Pradesh having an installed capacity of 5,940 MTPA for manufacturing of various types of pipes and MIS systems.
In February 2017, CPPL commenced agency business for various types of polymers of Indian Oil Corporation Ltd. (IOCL) as its DCA and consignment stockist (CS) for Gujarat region. Moreover, during FY21, CPPL commenced EPC of solar power plants.

**Brief standalone financials of CPPL:**

| **Brief Financials (Rs. crore)** | **FY19 (A)** | **FY20 (A)** |
|---|---:|---:|
| Total operating income | 150.36 | 189.54 |
| PBILDT | 19.01 | 31.55 |
| PAT | 7.20 | 12.60 |
| Overall gearing (times) | 1.82 | 1.61 |
| Interest coverage (times) | 2.59 | 3.12 |

*A – Audited*

Further, as per the published financial results for H1FY21, on a standalone basis, CPPL reported TOI of Rs.74.41 crore and PAT of Rs.4.68 crore, compared with TOI of Rs.79.98 crore and PAT of Rs.4.91 crore in H1FY20.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**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 | - | - | - | 32.10 | CARE BB+; Stable |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 11.00 | CARE A4+ |
| Non-fund-based - ST-Letter of credit | - | - | - | 15.50 | CARE A4+ |
| Fund-based-Short Term | - | - | - | 45.00 | CARE A4+ |
| Non-fund-based - ST-Credit Exposure Limit | - | - | - | 0.18 | CARE A4+ |
| Fund-based - LT-Working Capital Demand loan | - | - | April 2022 | 2.00 | CARE BB+; Stable |
| Fund-based - LT-Term Loan | - | - | December 2023 | 3.99 | CARE BB+; Stable |
| Fund-based - LT-Working capital Term Loan | - | - | January 2026 | 14.48 | CARE BB+; Stable |

**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-Cash Credit | LT | 32.10 | CARE BB+; Stable | 1)CARE BB+; Stable (14-Sep-20) | 1)CARE BB+; Stable (31-Dec-19) | 1)CARE BBB-; Negative (29-Jan-19)<br>2)CARE BBB-; Negative (07-Jan-19)<br>3)CARE BBB-; Negative (24-Aug-18)<br>4)CARE BBB-; Stable (05-Jun-18) | 1)CARE BBB-; Positive (10-Nov-17) |
| 2. | Non-fund-based - ST-Bank Guarantees | ST | 11.00 | CARE A4+ | 1)CARE A4+ (14-Sep-20) | 1)CARE A4+ (31-Dec-19) | 1)CARE A3 (29-Jan-19)<br>2)CARE A3 (07-Jan-19)<br>3)CARE A3 (24-Aug-18)<br>4)CARE A3 (05-Jun-18) | 1)CARE A3 (10-Nov-17) |
| 3. | Non-fund-based - ST-Letter of credit | ST | 15.50 | CARE A4+ | 1)CARE A4+ (14-Sep-20) | 1)CARE A4+ (31-Dec-19) | 1)CARE A3 (29-Jan-19)<br>2)CARE A3 (07-Jan-19)<br>3)CARE A3 (24-Aug-18)<br>4)CARE A3 (05-Jun-18) | 1)CARE A3 (10-Nov-17) |
| 4. | Fund-based - LT- | LT | - | - | - | - | 1)Withdrawn | 1)CARE BBB- |

| 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 |
| | Term Loan | | | | | | (29-Jan-19)<br>2)CARE BBB-; Negative (07-Jan-19)<br>3)CARE BBB-; Negative (24-Aug-18)<br>4)CARE BBB-; Stable (05-Jun-18) | ; Positive (10-Nov-17) |
| 5. | Fund-based - LT-Term Loan | LT | - | - | - | - | 1)Withdrawn (29-Jan-19)<br>2)CARE BBB-; Negative (07-Jan-19)<br>3)CARE BBB-; Negative (24-Aug-18)<br>4)CARE BBB-; Stable (05-Jun-18) | 1)CARE BBB-; Positive (10-Nov-17) |
| 6. | Fund-based-Short Term | ST | 45.00 | CARE A4+ | 1)CARE A4+ (14-Sep-20) | 1)CARE A4+ (31-Dec-19) | 1)CARE A3 (29-Jan-19)<br>2)CARE A3 (07-Jan-19)<br>3)CARE A3 (24-Aug-18)<br>4)CARE A3 (05-Jun-18) | 1)CARE A3 (10-Nov-17) |
| 7. | Non-fund-based - ST-Credit Exposure Limit | ST | 0.18 | CARE A4+ | 1)CARE A4+ (14-Sep-20) | - | - | - |
| 8. | Fund-based - LT-Working Capital Demand loan | LT | 2.00 | CARE BB+; Stable | 1)CARE BB+; Stable (14-Sep-20) | - | - | - |
| 9. | Fund-based - LT-Term Loan | LT | 3.99 | CARE BB+; Stable | 1)CARE BB+; Stable (14-Sep-20) | - | - | - |
| 10. | Fund-based - LT-Working capital Term Loan | LT | 14.48 | CARE BB+; Stable | - | - | - | - |

**Annexure 3: 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 - LT-Working Capital Demand loan | Simple |
| 4. | Fund-based - LT-Working capital Term Loan | Simple |
| 5. | Fund-based-Short Term | Simple |
| 6. | Non-fund-based - ST-Bank Guarantees | Simple |
| 7. | Non-fund-based - ST-Credit Exposure Limit | Simple |
| 8. | Non-fund-based - ST-Letter of credit | 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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