National Plastic Industries Limited (Revised)

September 13, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**30.25**	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	**2.00**	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**32.25 (Rs. Thirty-Two Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of National Plastic Industries Limited (NPIL) continue to derive strength from the steady operating performance of the company characterised by marginal improvement in revenues and operating profit margins albeit remains at moderate levels. The rating also factors in the NPIL's proven track record of more than five decades in plastic moulded products, vast experience of promoters in the plastics industry and having a well-established brand. Furthermore, the ratings derive strength from NPIL's improved operating performance in Q1FY23 (April 01 to June 30) back to pre-covid levels indicating better revenue visibility for the current fiscal. The rating also takes comfort from the unsecured loans maintained in the business and articulation by the management.

The ratings, however, continue to be tempered by NPIL's modest scale of operations, coupled with susceptibility of profit margins to volatile raw material prices, moderate capital structure and debt coverage indicators, working capital intensive nature of operations characterised by elongated operating cycle owing to higher inventory days, foreign exchange fluctuation risk, and prevailing stiff competition in the industry.

Outlook: Stable

Rating Sensitivities

Positive Sensitivities

- Increase in the scale of operation to around Rs.150 crore on sustained basis.
- Improvement in the profit margins with PBILDT and PAT margins exceeding 11% and 5% respectively on a sustained basis
- Improvement in the operating cycle to below 120 days
- Improvement in the financial risk profile characterized by gearing levels being at around 1.10x, debt coverage indicators with interest coverage exceeding 4 times and total debt to PBILDT reaching below 3.5 times on a sustained basis

Negative Sensitivities

- Decline in overall performance with PBILDT margin falling below 7% along with subdued revenue, resulting in much lower cash accrual
- Low cash accruals leading to deterioration in the debt coverage indicators or liquidity
- Deterioration in capital structure with overall gearing exceeding 2x level
- Elongation in working capital cycle or large debt funded capex thereby impacting the financial risk profile, particularly liquidity.

Key Rating strengths

Experienced management with long track record of operations: The promoters (Parekh family) of NPIL have been involved in the business of manufacturing and marketing injection moulded plastic products for over five decades. Over the years, NPIL has developed strong association with the suppliers as well as customers thus, enabling it to garner regular orders from them.

Diversified product portfolio coupled with Established brand and satisfactory marketing distribution setup: NPIL manufactures injection-moulded plastic products broadly classified into furniture, household & commercial items which are being sold under the brand name of 'National' for over five decades. NPIL covers wide range of products which finds its application in various purposes. Items under furniture include Chairs, Tables, Stools , Baby Products, houseware includes Buckets, Chopping Boards, Storage Boxes, Shopping Baskets, Laundry Baskets, Cupboards, Sofa and commercial products shall includes items such

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

as Soft-Drink Crates, Plastic Extrusion Mats, Hard Mats and Coolers. During FY22, the company derived around 62% revenues from moulded plastic materials, followed by around 15% from sale of plastic mats, around 11% from sale of plastic coolers and remaining from sale of other products. Besides, the company has a good distribution network as it operates from Mumbai and having its branches in Ghaziabad, Bangalore, Kerala and Punjab.

Steady order book position

The company has a steady order book position of around Rs.35 crore which is to be executed by March 2023. Besides, the company is also executing orders from Bajaj Electricals which is expected to give support to the topline further. Steady orders in past and addition of new clients continue to support the business risk profile of NPIL.

Established relations with customers and suppliers

Over the past five decades of its existence, NPIL has established healthy relationship with reputed customers. The company regularly supplies plastic moulded furniture and houseware to these companies and enjoys relationship for more than a decade. Top five clients of NPIL contributed around 26% and 38% of total revenue during FY22 and Q1FY23 respectively. Besides, NPIL enjoys healthy relationship with well-established and reputed suppliers.

Moderate profitability margins

The PBILDT margin of NPIL continues to remained steady from 8.07% in FY21 to 8.96% in FY22 owing to moderate increase in revenue and better realization coupled with the cost cutting measure taken by company during FY22. Moreover, during Q1FY23, NPIL has been able to report PBILDT margins of 7.58% as compared to 6.03% in Q1FY22.

Key Rating Weakness

Relatively modest scale of operations: The company's total operating income (TOI) grew marginally by 8% in FY22 Y-o-Y to Rs.82.64 crore as compared to Rs 76.45 crores in FY21. The increase in operating income of NPIL is mainly driven by improved realization of sales with increase in demand from end users indicating normalization of situation post Covid. Further, NPIL has clock-in the sales of Rs.21.09 crore in Q1FY23 which in line with pre-Covid era.

Working capital intensive nature of operations: The operation of the company remained working capital intensive due to majority of the funds utilized towards inventory since NPIL has to maintain inventory to meet increasing demand as well as the prompt requirements from its customers. Thus, the inventory holding of NPIL increased marginally from 130 days in FY21 to 140 days in FY22. However, the collection period has been reduced from 100 days in FY21 to 79 days in FY22 owing to stringent policy adopted by company for debtor's recovery. On the other hand, the creditors' period also have been reduced from 54 days in FY21 to 35 days in FY22. Given all of these factors, the operating cycle continues to remained elongated from 176 days in FY21 to 184 days in FY22.

Moderate capital structure and debt coverage indicators: NPIL's overall gearing has improved marginally from 1.58 times as on March 31, 2021 to 1.48x on March 31, 2022 due to scheduled repayment of long-term loan coupled with increased tangible net worth led by accretion of profits. PBILDT interest coverage ratio has improved to 2.66x in FY22 (P.Y: 2.23x).
Total debt/ Gross cash accruals stood at 13.27 times in FY22 (PY: 11.58 times).

Susceptibility of margins to volatile raw material prices and foreign exchange fluctuation risk: The raw material prices have been fluctuating in the past and therefore the cost base remains exposed to any adverse price fluctuations in the prices of the key raw materials i.e. Polypropylene & Polystyrene. However in past, the company has been able to pass on the increase in raw material prices to the customers with a time lag. In addition to this, the profitability is also exposed to fluctuations in foreign currency, as the company exports around 10% of products with no hedging mechanism in place.

Intense competition putting pressure on margins: The company operates in a highly competitive and fragmented market which consists of large to small sized players. Moreover, low entry barriers in the industry further intensifies the already prevailing competition in the market. This competitive and fragmented nature of the industry can have an impact on the profit margin of the company and also led company to adopt liberal credit policy in the market.

Liquidity Position: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations on an annual basis. The company has modest cash balance of Rs.0.53 crore as on March 31, 2022 and Rs.0.91 crore as on June 30 2022. Average utilization of bank limits is to the extent of 72% which indicates around 28% of limits is unutilized i.e. around Rs.7.63 crore which seems to be adequate to support the business requirements. The cash accruals are expected to be majorly utilized towards meeting the debt obligations and supporting the working capital requirements. The management/promoters have articulated that they will maintain unsecured loans.

Analytical approach: Standalone

Applicable criteria:

Policy on default recognition
Financial Ratios –Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company

National Plastic Industries Limited (NPIL) was established in 1952 and is currently being managed by Mr. Paresh Parekh and Mr. Ketan Parekh. NPIL is mainly engaged in the business of manufacturing and marketing of injection moulded plastic products for over five decades. The products of NPIL can broadly be classified into furniture, household & commercial items which are sold under the brand name of 'National'. The company operates from its registered office located at Andheri (Mumbai) while the manufacturing facilities are located in Silvassa, Patna and Nellore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	76.45	82.64	21.09
PBILDT	6.17	7.41	1.60
PAT	2.38	1.99	0.33
Overall gearing (times)	1.58	1.48	NA
Interest coverage (times)	2.23	2.66	NA

A: Audited , UA-Unaudited, NA- Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

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

Covenants of rated instrument / facility: Annexure-3

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	30.25	CARE BBB-; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	2.00	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (30-Sep-21)	1)CARE BBB-; Stable	1)CARE BBB-; Stable

							(10-Aug-20)	(17-Sep-19) 2)CARE BBB-; Stable (05-Sep-19)
2	Fund-based - LT-Cash Credit	LT	30.25	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Sep-21)	1)CARE BBB-; Stable (10-Aug-20)	1)CARE BBB-; Stable (17-Sep-19) 2)CARE BBB-; Stable (05-Sep-19)
3	Non-fund-based - ST-ILC/FLC	ST	2.00	CARE A3	-	1)CARE A3 (30-Sep-21)	1)CARE A3 (10-Aug-20)	1)CARE A3 (17-Sep-19) 2)CARE A3 (05-Sep-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Charges	In case of limits of Rs. 5 crore and above, the borrower shall pay commitment fee at 0.50% p.a. if average utilization is less than 75%
B. **Non-financial covenants**	
1. No intra group transfer	Intra group transfers not to be allowed unless and until it is a genuine trade transaction in which the borrower deals.

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-ILC/FLC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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