

## Polyspin Exports Limited

August 17, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	31.65 (Enhanced from 23.11)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	62.00 (Enhanced from 57.00)	CARE A3 (A Three)	Reaffirmed
Short-term bank Facilities	-	-	Withdrawn
<b>Total bank facilities</b>	<b>93.65</b> <b>(₹ Ninety-three crore and sixty-five lakh only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and 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 three decades in the polypropylene segment, diversified product profile and comfortable liquidity position of the company.

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

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability to scale up the operations to above ₹300 crore and stabilise profitability on a consistent basis with PBILDT margins in the range of 9%-10%.
- Consistent improvement in the gearing levels below 0.80-1.00x

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large-sized debt-funded capital expenditure deteriorating the capital structure leading to overall gearing above 2.
- Deterioration of order book due to low demand.

### Detailed description of the key rating drivers

#### Key rating strengths

##### Highly experienced promoters

PEL was established in the year 1972 by Rammohan Raja and is situated in Rajapalayam, Tamil Nadu. PEL is managed by the family members of Mr. Rammohan Raja and the board of directors headed by his son R. Ramji, Managing director of the company since April 2013. R. Ramji has three decades of experience in the woven sack industry and technical textile technology. The Board of the company is transparent, including six independent directors, two directors, one woman director and one managing director. All the key management personnel of PEL have defined roles and have a rich experience of more than three decades in the related fields.

##### Long track record of operations in polypropylene product business

PEL is into the field of polypropylene product business since 1985. The promoters were initially into three manufacturing of high-density polyethylene (HDPE)/polypropylene (PP) bags and thereafter started production of flexible intermediate bulk container (FIBC) bags. As a diversification process, the textile unit was started by the promoters. Due to its long operational track record of more than three decades in the packaging industry, the company has forged good relationships with its customers and suppliers. PEL majorly supplies its products to distributing and marketing agents situated in the overseas markets. PEL's products are primarily used in fertilizer, building material, chemical and cement industries.

##### Diversified revenue generation

Initially PEL started with the production of HDPE/PP bags, and further it went into the field of poly propylene product business since 1985. PEL commenced full-fledged FIBC production from 1996. PEL's FIBC division accounts to 90% of the sales and it produces FIBC bags, PP fabric, PP yarn, Multifilament yarn and Paper bags. FIBC products are 100% exported to various countries, including US, Italy, France etc. The cotton yarn division produces textile and the yarn textile goods are sold domestically within the local market. The FIBC division contributed to 89.56% (PY: 90.41%) in FY22 while spinning division contributed to 10.44% (PY: 9.59%) of the income in FY22(refers to the period April 1 to March 31).

##### Stable operational performance in FY22 however slowdown in orders during FY23

The operating income increased at the y-o-y growth of 18.1% in FY22 from ₹237.97 crore in FY21 due to huge demand for FIBC bags in the pandemic period as e-commerce segment saw a huge growth as well as diversion of orders from China to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

India owing to negative sentiments developed towards China in the wake of covid-19. The capacity utilisation (CU) of FIBC division remained stable at 91.7% in FY22 (PY: 92.5%). The PBILDT margin stood at 7.65% in FY22 (PY: 8.17%), including the one-time additional freight expense of around ₹10 crore which is entirely passed on to the customers. FIBC division caters primarily to US market and there has been slow down on orders from US over the past few months due to inflation, interest rate hike etc. In line with low orders, PEL had stopped production in assembly unit for three days on July 29, 2022, July 30, 2022 and August 6, 2022. During Q1FY23 (refers to the period April 1 to June 31), the company booked income of ₹65.40 crore and Profit after tax (PAT) of ₹1.74 crore.

### **Key rating weaknesses**

#### **Vulnerability of margins to volatility in raw material prices and forex fluctuations**

PEL's major raw material is the PP granule, which is derived from crude oil. The price of PP granule is volatile in nature since it is dependent on the movement of crude oil prices. However, PEL adjusts its pricing according to the price movements on order-to-order basis and passes on the increase and decrease in PP prices to its clients to some extent. The prices of PP granules had increased since the mid of Q4FY22 following the increase in crude oil prices due to the outbreak of Russia-Ukraine war. The average purchase price of PP granules for PEL had increased from ₹78.7 per kg in FY21 to ₹104.7 per kg in FY22 and further to ₹124.75 per kg in Q1FY23. The prices of the other raw material, i.e., cotton, for spinning division is also governed by various factors such as area under cultivation, monsoon, international demand-supply situation is also volatile in nature. Furthermore, the profits of PEL are also exposed to the foreign currency movements.

#### **Highly competitive packaging industry**

The packaging industry is highly fragmented and competitive with the presence of large and small players who operate across the FIBC and other packaging segments. PEL faces competition from unorganised local players in terms of pricing and market share. However, the packaging industry requires highly skilled human capital along with the market expertise and experience in terms of supplies to the reputed clientele in the US and Europe which acts as a barrier for new players to sustain the business. PEL has been providing competitive prices to its customers to maintain market share and improve the economies of scale. This has further constrained the profitability margins in the medium term

#### **Liquidity: Adequate**

The liquidity is adequate marked by sufficient cushion in accruals against repayment obligations and free cash balance of Rs. 8.82 crore (PY: Rs. 3.58 crore) as on March 31, 2022. The average working capital utilisation of the company stood moderate at 83.46% for the past 12 months ended May 31, 2022. The operating cycle of the company remains moderate at 86 days during FY22. The inventory holding level is at 57 days for FY22 as PEL continues to hold higher inventory to service order book up to 2 months. The company pays its supplies between 30 days and 50 days in the FIBC division (for polypropylene) and in 30 days for cotton yarn business. The collection period ranges between 40 days and 50 days. The current ratio of PEL improved to 1.25x as on March 31, 2022 (PY: 0.99). PEL also availed COVID-19 loans of ₹8.46 crore in FY22.

#### **Industry and Prospects**

The growth of the packaging industry is largely driven by various logistic applications, technological advancements and increasing disposable income levels sector across the country. The rise of the Indian middle class, rapid expansion of organised retail, growth of exports, and India's rising e-commerce sector are further facilitating growth. However, the industry had taken a hit in demand during the period of Q4FY22 due to Russia-Ukraine conflict resulting in higher prices of crude oil and its derivatives including Polypropylene prices which is the primary raw material for the company. Further increase in the interest rates and the rising inflation, the current demand slowdown is expected to affect the short to medium-term industry growth. The industries across the board could sense the long-term effects already imposed sanctions such as the US banning the import of Russian oil and gas, along with the EU's plans to ban coal imports. The rise in energy prices is liable to stay at elevated levels, as Western Europe attempts to reduce its energy dependency on Russia

#### **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](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

[Policy on withdrawal of ratings](#)

#### **About the company**

Polyspin Exports Limited (PEL) was established in the year 1972 by Rammohan Raja and is situated in Rajapalayam, Tamil Nadu. PEL commenced operations with manufacture of small PP bags and begun to export since 1985. At present, PEL has two divisions namely FIBC division which produces products such as FIBC bags, PP woven bags and spinning division which produces open-ended yarn through 2400 rotors. The FIBC division which accounts for 90% of the total sales and textile division

accounts for the rest of sales. PEL's products are primarily used in fertilizers, building materials, chemical and cement industries. The day-to-day operations of the company are managed by R Ramji, the Managing Director and son of Rammohan Raja.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23(UA)
Total operating income	237.98	281.74	64.50
PBILDT	19.48	21.57	4.29
PAT	7.50	8.99	1.74
Overall gearing (times)	1.74	1.44	NA
Interest coverage (times)	3.38	4.01	NA

A: Audited, UA: Unaudited, NA: Not Available

**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 October 21, 2021.

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	April 2030	23.35	CARE BBB-; Stable
Fund-based - ST-Foreign Demand Bills Payable		-	-	-	25.00	CARE A3
Fund-based - LT-Cash credit		-	-	-	8.30	CARE BBB-; Stable
Fund-based - ST-EPC/PSC		-	-	-	37.00	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

**Annexure-2: Rating history for the 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	23.35	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Aug-21)	1)CARE BBB-; Stable (05-Aug-20)	1)CARE BBB-; Stable (03-Jul-19)
2	Fund-based - ST-Foreign Demand Bills Payable	ST	25.00	CARE A3	-	1)CARE A3 (03-Aug-21)	1)CARE A3 (05-Aug-20)	1)CARE A3 (03-Jul-19)
3	Fund-based - LT-Cash Credit	LT	8.30	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Aug-21)	1)CARE BBB-; Stable (05-Aug-20)	1)CARE BBB-; Stable (03-Jul-19)
4	Fund-based - ST-EPC/PSC	ST	37.00	CARE A3	-	1)CARE A3 (03-Aug-21)	1)CARE A3 (05-Aug-20)	1)CARE A3 (03-Jul-19)
5	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A3 (03-Aug-21)	1)CARE A3 (05-Aug-20)	1)CARE A3 (03-Jul-19)

\*Long-term/Short-term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not applicable**

**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	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

**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 instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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