

Polyspin Exports Limited

August 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	31.36 (Reduced from 31.65)	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	62.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 its promoters, its operational track record of more than three decades in the flexible intermediate bulk container (FIBC) segment, and reputed customer profile with presence across different geographies. While reaffirming the ratings, CARE Ratings notes that PEL had closed its loss-making cotton spinning segment effective August 14, 2023, which is expected to support better overall operating performance, going forward.

The ratings of PEL are, however, constrained by moderate capital structure, susceptibility of profits to volatile raw material prices and forex fluctuations, and its presence in intensely competitive and cyclicity nature of the packaging industry. The ratings are also constrained by the moderate financial performance in FY23 (refers to the period April 01 to March 31) and Q1FY24 (refers to the period April 01 to June 30) on account of slowdown in export orders and higher raw material costs, which could not be entirely passed on to the customers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to scale up the operations in FIBC division 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

- Any large-sized debt-funded capital expenditure deteriorates the capital structure leading to overall gearing above 2x.
- Any continued decline in order book resulting in net losses on a sustained basis.

Analytical approach: Standalone

Outlook: Negative

The outlook is negative as the financial performance is expected to be moderate in the near term due to the slowdown in export orders from US and Europe on account of inflation. The outlook may be revised to 'Stable' if the company is able to improve its order book position and ramp-up sales and improve profitability.

Detailed description of the key rating drivers:

Key strengths

Highly experienced promoters

PEL was established in the year 1972 by Rammohan Raja, situated in Rajapalayam, Tamil Nadu, and is presently managed by his family members. R. Ramji, son of Rammohan Raja, is Managing director of the company, since April 2013. He 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 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 (PP) product business since 1985. The promoters were initially into the manufacturing of high-density polyethylene (HDPE)/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.

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

Reputed customer base with presence across different geographies

The company produces different varieties of bags such as U Panel bags, circular big bags, Q bags, UN certified bags, food grade bags, etc. The company derived 86.25% (PY: 89.56%) of its income from the FIBC segment in FY23, while the rest from cotton spinning, which has been closed during the current year. FIBC products are 100% exported to various countries, including the US, Italy, France, etc, of which US forms 67.50% (PY: 62.93%) of the sales in FY23. PEL also has a reputed customer base with long-standing relationship and top 10 customers forming 90.14% (PY: 79.75%) of the sales in FY23.

Moderate capital structure and debt protection metrics

PEL's capital structure stood moderate with overall gearing of 1.41x (PY: 1.44x) as on March 31, 2023. The debt coverage metrics moderated on account of declined financial performance in FY23 with total debt/ gross cash accruals (TD/GCA) of 15.36 as on March 31, 2023 (PY: 5.98). The interest coverage also declined from 4.01x in FY22 to 2.62x in FY23.

Key weaknesses

Decline in scale of operations during FY23 on the back of demand slowdown in FIBC and textile division

The operating income declined by 14.70% from ₹281.74 crore in FY22 to ₹245.83 crore in FY23 due to low orderbook position consequent to slowdown in US and European markets, increase in cotton price, and decrease in the selling price of yarn. The PBILDT margin of PEL declined from 7.65% in FY22 to 3.53% in FY23. The slowdown prevailed in Q1FY24 leading to further decline in PBILDT margin to 0.27% on a total income of ₹58.23 crore. The company had announced the closure of spinning division effective August 14, 2023, which had reported losses in the recent past due to unfavourable market conditions. CARE Ratings expects the closure of the loss-making spinning segment to reduce the overheads and result in better overall operating performance going forward.

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. The average purchase price of PP granules for PEL had increased from ₹78.7 per kg in FY21 to ₹112.75 per kg in FY23. Furthermore, the profits of PEL are also exposed to foreign currency movements and cover around 70-80% of the receivables through forward contract. CARE Ratings notes that PEL incurred mark-to-market loss of ₹1.60 crore on outstanding forward contracts during FY23.

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 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 of the company is adequate with sufficient cushion in accruals against term debt repayment obligations, also aided by free cash balance of ₹9.56 crore as on March 31, 2023. The operating cycle of the company remains similar at 90 days during FY23 (PY: 87 days). The company pays its supplies between 30 and 50 days in the FIBC division. The collection period ranges between 40 and 50 days. The current ratio of PEL stood at 1.22x as on March 31, 2023 (PY: 1.25). The average working capital utilisation of fund-based limits stood comfortable at 71% for the past 12 months ended July 2023. The company plans to avail capex reimbursement term loan of ₹7.7 crore in September 2023 to provide liquidity cushion in case of any shortfall.

Assumptions/Covenants : Not applicable

Environment, social, and governance (ESG) risks : Not applicable

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

PEL was established in the year 1972 by Rammohan Raja and is situated in Rajapalayam, Tamil Nadu. It commenced operations with manufacture of small PP bags and initiated 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 2,400 rotors. The FIBC division accounts for 90% of the total sales, while the textile division accounts for the rest. 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. The company had permanently closed the operations of textile division with effect from August 14, 2023.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	Q1FY24 (UA)
Total operating income	281.74	245.83	58.23
PBILDT	21.56	8.68	0.12
PAT	8.98	0.91	-1.93
Overall gearing (times)	1.44	1.41	1.44
Interest coverage (times)	4.01	2.62	0.15

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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 December 30, 2022.

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	8.30	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	April 2030	23.06	CARE BBB-; Negative
Fund-based - ST-EPC/PSC		-	-	-	37.00	CARE A3
Fund-based - ST-Foreign Demand Bills Payable		-	-	-	25.00	CARE A3

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	23.06	CARE BBB-; Negative	-	1)CARE BBB-; Stable (17-Aug-22)	1)CARE BBB-; Stable (03-Aug-21)	1)CARE BBB-; Stable (05-Aug-20)
2	Fund-based - ST-Foreign Demand Bills Payable	ST	25.00	CARE A3	-	1)CARE A3 (17-Aug-22)	1)CARE A3 (03-Aug-21)	1)CARE A3 (05-Aug-20)
3	Fund-based - LT-Cash Credit	LT	8.30	CARE BBB-; Negative	-	1)CARE BBB-; Stable (17-Aug-22)	1)CARE BBB-; Stable (03-Aug-21)	1)CARE BBB-; Stable (05-Aug-20)
4	Fund-based - ST-EPC/PSC	ST	37.00	CARE A3	-	1)CARE A3 (17-Aug-22)	1)CARE A3 (03-Aug-21)	1)CARE A3 (05-Aug-20)
5	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (17-Aug-22)	1)CARE A3 (03-Aug-21)	1)CARE A3 (05-Aug-20)

LT/ST - Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities : Not Applicable**Annexure-4: Complexity level of the various instruments rated**

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

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

Note on the 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 for any clarifications.

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About us:

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