

## Polyspin Exports Limited

February 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating	Rating Action
Long Term Bank Facilities	31.36	CARE BB+; Stable	Revised from CARE BBB-; Negative
Short Term Bank Facilities	62.00	CARE A4+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Polyspin Exports Limited (PEL) factors in the continued decline in financial performance during 9mFY24 (refers to the period April 1 to December 31) on account of weakened demand in US and Europe due to inflationary pressures, unfavourable pricing environment and macroeconomic conditions. This has led to stretched liquidity with lower than expected accruals for the period. The ratings of PEL are also 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, however, 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. CARE Ratings also notes that PEL had closed its loss-making cotton spinning segment effective August 14, 2023. The assets of the spinning division are expected to be sold and the proceeds used for reducing debt and this would be a key monitorable from a credit perspective.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Ability to scale up the operations with income above Rs.200 crore and stabilize profitability levels on a consistent basis with PBILDT margin above 6%.
- Improvement in liquidity position.

#### Negative factors

- Any debt-funded capital expenditure deteriorates the capital structure leading to gearing levels above 2.50x.
- Any stretch in operating cycle on account of demand slowdown to above 150 days.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the company is expected to maintain its capital structure in the absence of debt funded capex in the medium term, while also reduce the overheads with the closure of the loss-making spinning segment.

### Detailed description of the key rating drivers:

#### Key weaknesses

#### Decline in scale of operations during FY23 and 9m FY24 on the back of demand slowdown:

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 9mFY24, along with the competitive international prices led to pricing pressure of company's products. This coupled with higher freight costs led to a further decline in PBILDT margin to 2.18% in 9mFY24, including operating losses in Q3FY24. PEL reported net losses of Rs.2.89 crore in 9mFY24 as against PAT of Rs.1.28 crore in the corresponding period last year. The financial performance is expected to remain subdued in the near term with the unfavourable prices and slowdown in export demand.

#### Moderate capital structure and debt protection metrics:

PEL's capital structure stood moderate with an 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 and 1.18x in 9mFY24.

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

PEL's major raw material is the Polypropylene (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. Due to prevailing slowdown in the US markets, the company has not been able to pass on the increased raw material prices and other overheads to the customers.

**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.

**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 over 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 has been 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. 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.

**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 came from cotton spinning, which has been closed during the current financial year effective August 14, 2023. 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.

**Liquidity: Stretched**

The liquidity of the company is stretched with lower cash accruals against term debt repayment obligations. The operating cycle elongated to 123 days in H1FY24 (refers to the period April 1 to September 30) from 90 days in FY23 due to slow movement of goods amidst sluggish demand situations. The company is expected to sell the assets of the discontinued spinning segment before the end of June 2024 which would ease liquidity to a certain extent. PEL has been sanctioned with working capital limits of Rs. 70.40 crore and the average utilization of the same stood at 70% for the past 12 months ending January 2024. The company has availed an additional reimbursement term loan of ₹5.6 crore in September 2023 towards solar project and lamination machines, which together with the available cash deposits supported the liquidity shortfall during the year.

**Industry and Prospects:**

India's exports of plastic films and flexible packaging fell by 14.6% in 2022-23. This was mainly due to lower demand from USA, Italy, Germany on account of inflationary pressures. The domestic prices of plastic films and flexible packaging are declining mainly on account of competition from imports from China and USA which are available at much cheaper rates than domestically produced films and flexible packaging products. The imports of plastic films and flexible packaging have been increasing since 2020-21. Imports increased by 14.6 per cent in 2020-21, by 14 per cent in 2021-22 and by 16.4 per cent in 2022-23. In the first-

eight months of 2023-24, imports of plastic films and flexible packaging rose by 21.2 per cent. This had put pressure on the domestic manufacturers to reduce prices so as to remain competitive in the industry. The fall in operating costs corresponding to sales was not as steep as the fall in sales revenues seen since the September 2022 quarter. As a result, the industry's operating profits are declining since then. Sales revenue growth is likely to remain muted on account of lower realization of FIBC products.

**Assumptions/Covenants:** Not applicable

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

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Cotton Textile](#)

[Short Term Instruments](#)

### 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. PEL had 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 in FY23. However, the company had permanently closed the operations of textile division with effect from August 14, 2023. 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)	31-03-2022 (A)	31-03-2023 (A)	9m FY24 (UA)
Total operating income	281.74	245.83	156.16
PBILDT	21.56	8.68	3.41
PAT	8.98	0.91	-2.87
Overall gearing (times)	1.44	1.41	NA
Interest coverage (times)	4.01	2.62	1.18

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

#### Status of non-cooperation with previous CRA:

CRISIL has conducted the review based on 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 BB+; Stable
Fund-based - LT-Term Loan		-	-	April 2030	23.06	CARE BB+; Stable
Fund-based - ST-EPC/PSC		-	-	-	37.00	CARE A4+
Fund-based - ST-Foreign Demand Bills Payable		-	-	-	25.00	CARE A4+

**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 BB+; Stable	1)CARE BBB-; Negative (24-Aug-23)	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 A4+	1)CARE A3 (24-Aug-23)	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 BB+; Stable	1)CARE BBB-; Negative (24-Aug-23)	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 A4+	1)CARE A3 (24-Aug-23)	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)

\*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 details

To view the lender wise details of bank facilities please [click here](#)

## Annexure-6: List of all the entities consolidated – Not applicable

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

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### About us:

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