

Polyspin Exports Limited

July 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	20.61 (Reduced from 31.36)	CARE BB+; Negative	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	68.00 (Enhanced from 62.00)	CARE A4+	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 be constrained by declined financial performance with cash losses in FY24 (refers to the period April 1 to March 31), 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to scaleup the operations with income above Rs.200 crore and stabilize profitability levels on a consistent basis with PBILDT margin above 6%.
- Improvement in interest coverage above 3x.

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.
- Any delay in monetization of spinning division assets leading to further stretch in liquidity

Analytical approach: Standalone

Outlook: Negative

The outlook is Negative as the profitability of the company is expected to be stressed in the near term on account of pricing pressure in export markets leading to drop in sales realization, coupled with higher freight costs. The outlook may be revised to stable in case the company is able to improve profitability and monetize the assets held for sale to ease liquidity.

Detailed description of the key rating drivers:

Key weaknesses

Decline in scale of operations during FY24:

The operating income declined by 19.27% from ₹245.83 crore in FY23 to ₹206.11 crore in FY24 due to the moderation in sales realization due to slowdown in US and European markets. This together with higher freight costs led to decline in PBILDT margin from 3.53% in FY23 to 1.44% in FY24. PEL reported net losses of Rs.3.31 crore in FY24 as against PAT of Rs.0.91 crore in the corresponding period last year.

Moderate capital structure and debt protection metrics:

PEL's capital structure stood moderate with an overall gearing of 1.45x (PY: 1.31x) as on March 31, 2024. The debt coverage metrics also remained moderate on account of cash losses in FY24 and interest coverage metrics below unity. During FY24, PEL availed reimbursement term loan of Rs. 5.6 crore for the solar project completed in FY23 and also loan against deposits of Rs. 5.3 crore to meet working capital and debt obligations. The company also installed 1.3 MW of captive solar in Q4FY24 (refers to the period January 1 to March 31), partly funded by term loan of Rs. 4.1 crore.

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 reduced

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

from ₹112.75 per kg in FY23 to ₹100.3 per kg in FY24. The profits of PEL are also exposed to foreign currency movements and cover around 70-80% of the receivables through forward contract. 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 the 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 94% (PY: 86.25%) of its income from the FIBC segment in FY24. FIBC products are 100% exported to various countries, including the US, Italy, France, etc, of which US forms 68.60% (PY: 67.57%) of the sales in FY24. PEL also has a reputed customer base with long-standing relationship and top 10 customers forming 90.24% (PY: 90.14%) of the sales in FY24.

Liquidity: Stretched

The liquidity of the company is stretched with cash losses in FY24. 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. The operating cycle elongated to 96 days in FY24 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 August 2024 which would ease liquidity to a certain extent, and it is a key rating monitorable. PEL has been sanctioned with working capital limits of Rs. 71.30 crore and the average utilization of the same stood at 54% for the past 12 months ending May 2024.

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](#)

[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 produces products such as FIBC bags, PP woven bags and exports to various geographies such as USA and Europe. 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)	31-03-2024 (A)
Total operating income	281.74	245.83	206.11
PBILDT	21.56	8.68	2.97
PAT	8.98	0.91	-3.31
Overall gearing (times)	1.44	1.31	1.45
Interest coverage (times)	4.01	2.62	0.76

A: Audited; 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 'Not cooperating' vide its press release dated February 29, 2024. The reason provided by CRISIL is non-furnishing of information for monitoring of rating.

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		-	-	-	3.30	CARE BB+; Negative
Fund-based - LT-Term Loan		-	-	April 2030	17.31	CARE BB+; Negative
Fund-based - ST-EPC/PSC		-	-	-	37.00	CARE A4+
Fund-based - ST-Foreign Demand Bills Payable		-	-	-	31.00	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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	17.31	CARE BB+; Negative	-	1)CARE BB+; Stable (22-Feb-24) 2)CARE BBB-; Negative (24-Aug-23)	1)CARE BBB-; Stable (17-Aug-22)	1)CARE BBB-; Stable (03-Aug-21)
2	Fund-based - ST-Foreign Demand Bills Payable	ST	31.00	CARE A4+	-	1)CARE A4+ (22-Feb-24) 2)CARE A3 (24-Aug-23)	1)CARE A3 (17-Aug-22)	1)CARE A3 (03-Aug-21)
3	Fund-based - LT-Cash Credit	LT	3.30	CARE BB+; Negative	-	1)CARE BB+; Stable (22-Feb-24) 2)CARE BBB-; Negative (24-Aug-23)	1)CARE BBB-; Stable (17-Aug-22)	1)CARE BBB-; Stable (03-Aug-21)
4	Fund-based - ST-EPC/PSC	ST	37.00	CARE A4+	-	1)CARE A4+ (22-Feb-24) 2)CARE A3 (24-Aug-23)	1)CARE A3 (17-Aug-22)	1)CARE A3 (03-Aug-21)
5	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (17-Aug-22)	1)CARE A3 (03-Aug-21)

LT: Long term; ST: 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](#)

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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