

AVH Polychem Private Limited

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	57.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of AVH Polychem Private Limited (AVH) factors in promoters experience of over a decade in the polymer trading industry, its long-standing relationship with its customers benefitting the company in terms of repetitive orders. The rating considers AVH's moderate scale of operations with consistent growth and its low customer concentration risk. The expected increase in demand for polymers due to wide application across industry is expected to support the company in its growth in the near-to-medium term. Moreover, lowly leveraged position, low level of inventory maintained, and adequate liquidity supports the rating.

The rating is constrained by low profitability due to trading operations and dealing in mostly polymers which is commodity, susceptibility to volatility in polymer prices and forex risk. With large number of players in the market, there exists intense competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistently improving revenue and gross cash accruals (GCA) above ₹15.00 crores

Negative factors

- Significantly declining scale of operations and cash accruals.
- Deteriorating overall gearing above 1x and TOL/TNW to 1.5x.
- Deteriorating liquidity position of the company with increase in operating cycle.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects AVH's track record of operations, its long-standing relationship with its customer and increasing application and demand of polymers in the market, benefitting the company in terms of repetitive and new orders.

Detailed description of key rating drivers:

Key strengths

Experienced promoters

AV is in trading polymers over a decade and is a family run entity. The company is run by the promoters, Bipinchandra Gandhi, Jwalin Gandhi and Rutvij Gandhi, who have rich experience in this field. AVH benefits from their rich experience and funding support extended by them in the form of quasi equity.

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

Moderate scale of operations with consistent growth

The company is in trading polymers such as polyethylene, polypropylene and ethylene vinyl acetate, which the company majorly imports and supplies to domestic market. These polymers find its usage in industries such as medical, packaging industry, construction materials, and automotive industry, among others. CARE Ratings Limited (CARE Ratings) expects the company's performance to improve further given the increasing demand for these polymers. Increasing urbanisation and improving infrastructure resulting in increased demand for construction materials, increasing consumerism and rise in ecommerce supporting the demand for packaging products and steady expansion of automotive industry is further expected to support the growth of polymers. Moreover, the lower price of imported materials, further benefits end-customers and hence supports AVH's growth.

AVH's scale of operation is moderate and increased from ₹187 crore in FY20 to ₹531 crore in FY24. The company grew at a compound annual growth rate (CAGR) of ~30% over FY20-FY24, majorly driven by the increase in sales volumes. The company majorly derives (70%) its revenue from polyethylene segment, followed by polypropylene (25%) and rest from others. The company has achieved total revenue of ₹220.00 crore till August 2024.

Established relationship with counterparties

The company's vendors (international and domestic) are well-known and reputed players such as Dow Chemical International Private Limited, Sabic Asia Pacific Private Limited, Total Energies, LG Chem Limited, Lotte Chemical Titan, Marco Polo International LLC, HPCL, Sipchem, Mitsui & Company Limited, SCG (Thailand) Company Limited and many others. AVH is an authorised dealer of Dow Chemicals for medical grade polymer. The sourcing is spread across vendors and the top five suppliers contributes less than 50% towards the total purchase.

Furthermore, the company's customer concentration risk is low with top five customers contributing less than 20% towards the total sales volume. The company caters many industries such as dairy, food packaging, construction materials, other packaging, solar industry, adhesives, and pharma among others. Pharma industry contributes ~10% towards the revenue.

Lowly leveraged; expected to remain comfortable in medium term

The company's overall debt profile is low and hence overall gearing is expected to remain comfortable in medium term. Due to low debt level, the finance cost is expected to remain low and hence a healthy interest coverage is expected in medium term as well.

Overall gearing has been in the range of 0.42x-1.37x and interest coverage in the range of 2.74x-9.31x over FY20-FY24. Overall gearing as on March 31, 2024, stood at 0.56x (0.71x) and interest coverage in FY24 stood at 5.32x (3.68x).

Comfortable working capital cycle

AVH's working capital cycle is comfortable with low credit period extended to customers and low inventory holding policy. Working capital cycle have been in the range of 18 days to 28 days over FY21-FY24. The company extends credit period of upto 30 days to its customers, except pharma companies. Against this, the company enjoys credit period of 45-90 days of credit from its international suppliers; however, the company clears off its dues early. In case of domestic procurement, the payment is on immediate basis. In FY24, the working capital cycle stood comfortable at 18 days (FY23: 25 days).

Key weaknesses**Low profitability and is exposed to volatility in prices of commodity and forex risk**

AVH deals into polymer products which is exposed to volatility in prices. These products are crude derived and hence volatile. Also, the company being net importer (60%-70% of products are imported against nil exports), is exposed to forex risk. The company imports the products from countries such as Middle East, US, Malaysia, Korea, and Thailand, among others. Of the total forex exposure, ~60% is hedged, which mitigates the risk to some extent.

Intense competition and thin margin

The company is vulnerable to competitions given the large number of players in the market. Also, considering the trading nature of the concern and competition, the company's operating margin has been thin over the years. In FY24, operating margin stood at 2.16% (FY23: 1.52%).

Moderate net worth:

Since the company is engaged in trading polymers, the net worth base is moderate. The company's net worth base stood at ₹37.54 crore as on March 31, 2024.

Liquidity: Adequate

The company's liquidity is adequate with comfortable utilisation of working capital facility at 59% for last 12 months ended August 31, 2024. There are no repayment obligations of the company given that there is no term loan in the company as on date. The company has negligible amount of repayment obligation of vehicle loan only. Working capital cycle is comfortable in the range of 18 days to 26 days over FY20-FY25 due to lower inventory maintained. GCA is expected to be above ₹8.00 crore in next couple of years. GCA stood at ₹7.61 crore in FY24 (FY23: ₹3.82 crore). Cash and bank balance as on March 31, 2024, stood modest at ₹2.34 crores.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Trading and distributors

Incorporated in 2009, AVH is in trading commodity polymers such as Polyethylene (PE) granules, Polypropylene (PP) granules, Ethylene Vinyl Acetate (EVA) granules and other polymers. AVH procures polymers from domestic and international market and supplies to domestic customers.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	420.03	531.08
PBILDT	6.37	11.48
PAT	3.55	7.30
Overall gearing (times)	0.71	0.56
Interest coverage (times)	3.68	5.32

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	57.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	57.00	CARE BBB-; Stable / CARE A3				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

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

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

Contact us

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About us:

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