

Kurvi Polymers LLP (Revised)

January 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	30.00	CARE BB+; Stable / CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Kurvi Polymers LLP (KPL) has taken over existing business of M/s Sigma Chemicals (SC- Proprietor: Mr. Vijay Goyal) w.e.f. April 2022. SC was a Del Credere Agent (DCA) of India Oil Corporation Limited (IOCL) for trading of polymers. The ratings assigned to the bank facilities of KPL takes into consideration Overall financial risk profile of existing business of SC along with current year performance of KPL.

The ratings remained constrained on account of leveraged capital structure and moderate debt coverage indicators during FY22 (Audited, refers to period April 01 to March 31) and 9MFY23 (Provisional, refers to period April 01 to December 31). The ratings further continued to remain constrained due to KPL's presence in highly fragmented industry with competition from independent and del credere agents, susceptibility of profitability margins to price volatility and foreign exchange rate fluctuations along with constitution of KPL as Limited Liability Partnership (LLP).

The above ratings derive comfort from stable commission income supported by healthy traded sales volume, moderate profitability position and adequate liquidity position during FY22. The above rating further derive strength from experienced promoters, efficient trade receivables management with low collection risk and stable industry demand outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining scale of operations as marked by Total Operating Income (TOI) and profitability as reported by Sigma Chemicals (SC)
- Improvement in its capital structure marked by overall gearing ratio of below unity times on sustained basis.
- Improvement in debt coverage indicators marked by interest coverage of more than 2 times on sustained basis

Negative factors

- Decline in scale of operations by more than 10% than the present level.
- Any further deterioration in the capital structure as marked by overall gearing ratio
- Withdrawal of funds by promoters putting pressure on liquidity

Analytical approach- Standalone

Key weaknesses

Leveraged capital structure

The capital structure of earlier firm – SC remained leveraged as marked by an overall gearing of 5.36x as on March 31, 2022 as against below unity overall gearing in past year. The deterioration in overall gearing is due to decrease in the tangible net worth level led by withdrawal of proprietor's funds of Rs.15.64 crore against personal fixed assets of proprietor in FY22 due to conversion planning to LLP.

Moderate debt coverage indicators

The debt coverage indicators of earlier firm- SC remained moderate as marked by total debt to gross cash accruals (TDGCA) stood at 18.70x as on March 31, 2022 as against 10.42x as on March 31, 2021 due to increase in the total debt level led by enhancement of Channel finance facility from Rs.8.50 crore to Rs.10 crore in December 2021 as well as avilment of Working capital Term Loan (WCTL) under Guaranteed Emergency Credit Line (GECL) scheme of Rs.2.58 crore in January 2022. The interest coverage ratio also remained moderate at 1.25x in FY22 as against 2.23x in FY21 due to increase in the finance charges in FY22.

Presence in highly fragmented industry with competition from independent and del credere agents

The firm operates in a highly competitive and fragmented market. It not only competes with the del-credere agents of large companies but also with other local polymer traders resulting in severe pricing pressure; however since KPL (through earlier firm- Sigma Chemicals) has very long-standing relation with one of the polymer market leader – Indian Oil Corporation Limited (IOCL), this risk reduces to larger extent.

Susceptibility of profitability margins to price volatility and foreign exchange rate fluctuations

The prices of the polymer that KPL trades are inherently volatile as it is derivative of crude oil as well as linkage with international market prices and other factors affecting domestic demand and supply. Further, KPL imports majority of the product which exposes it to the risk of adverse movement in forex rate fluctuations.

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

Constitution as Limited Liability Partnership

The constitution as a limited liability partnership firm restricts KPL's overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of possibility of withdrawal of capital in times of personal contingency as it has limited ability to raise capital and poor succession planning may result in dissolution of the firm in case of death/insolvency of partner.

Key strengths

Experienced promoters

KPL was formed in April 2022 and had taken over established proprietary business of SC. KPL has three partners namely Mr. Vijay Goyal, Mrs. Nina Goyal and Mr. Harshit Agrawal. Mr. Vijay Goyal was running business of Sigma Chemicals as a proprietor and holds rich experience of more than 3 decades in polymer trading industry. Another partner, Mrs. Nina Goyal holds experience of around two decades in varied businesses such as polymer and other chemicals trading. Mr. Harshit Agrawal also holds experience in power, steel, graphite etc businesses through their directorship in other entities. Overall operations and management of KPL are managed by all three partners jointly.

Stable Commission Income supported by healthy traded sales volume

KPL is a DCA/DOPW for reputed company IOCL since more than three decades. The components of total income of KPL consists of meagre amount of revenue from trading and others from rendering services under Del Credere Agent (DCA) agreement with IOCL. The scale of operations as marked by TOI of earlier firm- SC remained moderate at Rs.6.33 crore in FY22 as against Rs.9.93 crore in FY21; mainly due to decrease in the traded goods sales from Rs.5.24 crore in FY21 to Rs.2.13 crore in FY21. However, the income from rendering of services remained almost stable during past three years ended FY22. Further, during 9MFY23 (Prov.) KPL has reported total operating income of Rs.3.35 crore.

Moderate profitability position

The profitability position of earlier firm – SC remained moderate marked by PBILDT margin at 34.58% in FY22 as against 26.48% in FY21. The profitability margins improved albeit it declined in absolute terms marked by PBILDT at Rs.2.19 crore in FY22 as against Rs.2.63 crore in FY21 due to increase in low value-added trading operations in FY22. Consequently, the firm had reported net profit of Rs.1.28 crore (20.26%) in FY22 as against Rs.1.72 crore (17.31%) in FY21.

Efficient trade receivables management with low collection risk

Being a DCA, efficient receivable management remains crucial. Average collection period of SC remains at 11 days for FY22 and 10 days for FY21. The debtor risk is mitigated to large extent since in maximum cases (~90%) trade receivables are backed by Letter of Credit (LC)/Post-dated cheques (PDC). The trade receivables remained at Rs.26.87 crore and Rs.24.95 crore as on March 31, 2022 and March 31, 2021 as against gross sales of Rs.832.68 crore and Rs.668.52 crore respectively translating comfortable collection period. Moreover, the firm has established long term relationship with its customers which helps in mitigating the debtor risk significantly.

Stable demand outlook

Long-term domestic demand outlook remains favourable and is likely to be sustained by an increased demand from end-user industries such as automobiles, FMCG, packaging and pharmaceuticals. While there has been growth in domestic supply leading to increased competitive pressure, the domestic supply still lags demand and import dependence is expected to continue. Polymer industry in India is expected to grow due to increase in consumption of plastics. However, with government policy on ban on single use plastic items from July 2022, the demand of the same had taken hit but demand from other industry (pipes, infrastructure, household item, packaging etc.) continue to grow.

Liquidity: Adequate

The liquidity position of earlier firm SC remained adequate as marked by cash accruals of Rs.1.35 crore in FY22 as against nil term debt repayments. Free cash and Bank balance remained healthy at Rs.1.73 crore as on March 31, 2022 (Rs.0.14 crore as on March 31, 2021). The average utilization of fund based working capital limits remained at around 80% during past twelve months ended October 31, 2022. Operating cycle stood comfortable at 26 days in FY22 as against 6 days in FY21 owing to higher trading sales in FY22. Cash flow from operations remained at Rs.0.12 crore in FY22 as against negative cash flow from operations in FY21 due to averaging effect of trade receivables during FY21. Current ratio remained at 1.27x as on March 31, 2022 as against 1.35x as on March 31, 2021.

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](#)

[Wholesale Trading](#)

[Policy on Withdrawal of Ratings](#)

About the entity

Indore- Madhya Pradesh based Kurvi Polymers LLP (KPL) was formed on 20th April, 2022 by Mr. Vijay Goyal, Mrs. Nina Goyal and Mr. Harshit Agrawal. KPL had taken over existing business of M/s Sigma Chemicals (SC- Proprietor: Mr. Vijay Goyal). Sigma Chemicals is a Del Credere Agent (DCA) of India Oil Corporation Limited (IOCL) for trading of polymers. KPL also owned 2 Dealer Operated Polymer Warehouse (DOPW) at Indore, Madhya Pradesh and Raipur, Chhattisgarh on lease-hold basis. The said operations will be managed under KPL from April 2022.

Brief Financials* (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	9.93	6.33	3.35
PBILDT	2.63	2.19	NA
PAT	1.72	1.28	NA
Overall gearing (times)	0.99	5.36	NA
Interest coverage (times)	2.23	1.25	NA

A: Audited; Prov.: Provisional; NA: Not Available

*Financials of SC till March 31, 2022 and KPL in 9MFY23.

Status of non-cooperation with previous CRA: Not Applicable

However, below ratings of Sigma Chemicals are put into Issuer Not Cooperating category:

- CRISIL has put ratings assigned to the bank facilities of SC in to 'Non-Cooperation' vide press release dated May 31, 2022 on account of non-cooperation by SC with CRISIL's efforts to undertake a review of the ratings outstanding.
- ICRA has put ratings assigned to the bank facilities of SC in to 'Non-Cooperation' vide press release dated November 15, 2021 on account of non-cooperation by SC with ICRA's efforts to undertake a review of the ratings outstanding.

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 the 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/ ST-Working Capital Limits		-	-	-	30.00	CARE BB+; Stable / 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 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/ ST-Working Capital Limits	LT/ST*	30.00	CARE BB+; Stable / CARE A4+				

*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 the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Bank lender details for this company

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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About us:

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