Captain Polyplast Limited

January 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	^20.50 (reduced from Rs.21.54 crore)	**CARE BBB-; Negative [Triple B Minus; Outlook: Negative]**	**Reaffirmed**
Short-term Bank Facilities	46.50	**CARE A3 [A Three]**	**Reaffirmed**
Total Facilities	**67.00 (Rs. Sixty seven crore only)**		

Details of facilities in Annexure-1

^ Rating assigned to outstanding term loan of Rs.1.04 crore has been withdrawn since the entire amount has been repaid in full

Detailed Rationale & Key Rating Drivers

Owing to the operational, financial and managerial linkages between Captain Polyplast Limited (CPPL) and Captain Pipes Limited (CPLD), CARE has presented a 'combined' view of both the entities (referred to as CPL).

The ratings for the bank facilities of CPL continue to derive strength from the vast experience and established track record of the promoters of CPL in the agricultural equipment industry along with its reputed clientele. The ratings also derive strength from the moderation in its geographic concentration through registration and commencement of sales in states other than Gujarat.

The ratings, however, are constrained by CPL's high working capital intensity of operations due to dependence on government agencies for payment of subsidy, its exposure to volatility in raw material prices as well as linkage of the industry to agricultural sector with dependence on government policies. The ratings also factor in CPL's moderate scale of operations and profitability along with deterioration in CPL's debt coverage indicators due to extension in receivables, with general elongation in credit period owing to delays in receipt of subsidy from state government agencies as well as commencement of del credere agency (DCA) business in FY18 (FY refers to the period from April 1 to March 31).

CPL's ability to grow its scale of operations while improving its profitability and maintaining comfortable capital structure along with easing of its liquidity with efficient management of its working capital would be the key rating sensitivities.

Outlook: Negative

The negative outlook for the long term bank facilities of CPL reflects CARE's expectation of further weakening of its debt coverage indicators amidst subdued profitability and further increase in working capital requirements which are expected to be funded through additional debt.

The outlook may be revised to 'Stable' if the debt coverage indicators are better than expected with higher than envisaged profitability and control over its working capital requirements and lower than expected leverage.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters and established track record in agriculture equipment industry: The promoters of CPL, Mr. Ramesh Khichadia, Mr. Askok K. Patel and Mr. Gopal D. Khichadia, have over two decades long experience in the agricultural equipment industry. Mr. Ramesh Khichadia (B. Tech in Agriculture Engineering), key promoter and managing director, has more than two decades of experience in irrigation system implementation, specifically in Gujarat. Presently, CPPL has got itself registered as an authorized and registered supplier for MIS for around 13 state government authorities including that of Gujarat, Andhra Pradesh, Tamil Nadu and Telangana.

Reputed customers with some improvement in geographic concentration: CPL is focusing on diversification of its revenue profile by expanding its presence in states other than Gujarat, due to extended time taken in processing of subsidy claims by GGRCL. Over the last few years, CPL has obtained/renewed licenses to operate as an authorized and registered supplier for MIS for 13 states in India, which has reduced its dependency on Gujarat. However, Gujarat continued to be the top revenue contributor for CPL due to its established presence in the state.

Key Rating Weaknesses

Moderate scale of operations and profitability along with deterioration in debt coverage indicators: During FY18, the CPL's TOI remained stable as the growth in scale of operations in CPPL was largely offset by subdued performance of

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

CPLD. Further, CPLD was not able to pass on higher prices of imported raw materials to consumers, translating into lower combined profitability and cash accruals during FY18. Further, CPL's outstanding debt as on March 31, 2018 increased marginally, primarily on account of increased utilization of working capital limits to fund the receivables of IOCL's DCA business, which resulted in deterioration in debt coverage indicators, marked by interest coverage a TD/GCA of 9.68x as on March 31, 2018. Furthermore, CPL's solvency position continued to remain moderate marked by an overall gearing of 1.34x as on March 31, 2018.

Profitability exposed to volatile raw material prices: A major part of CPL's MIS and plastic products are manufactured through a melting and extrusion process from plastic granules. The prices of these granules, being crude oil derivatives, exhibit volatility with change in the price of crude oil. CPL sources majority of its raw materials from Indian Oil Corporation Ltd. (IOCL) and Reliance Industries Ltd. (RIL) and has low bargaining power vis-à-vis its suppliers. CPL's profitability is hence, exposed to the volatility in raw material prices, given its limited ability to pass on effect of any adverse movement in these to its customers in a competitive industry.

Dependence on the agricultural sector and government policies albeit favourable growth prospects for MIS sector: With around 50% of the arable land in India still being rain-fed and the problem of water scarcity prevailing in the country, there is huge potential for the growth of MIS in the nation. However, the demand for MIS products is subject to risks associated with the vagaries of nature, seasonality and government policies.

Working capital intensive nature of operations: CPL's operations are working capital intensive in nature, marked by a long operating cycle of 128 days in FY18 (elongated from 100 days in FY17). The elongation in the cash conversion cycle was due to increase in the overall level of outstanding receivables, owing to extended credit period being provided to customers, including that in the DCA business. CPL's outstanding receivables stood at Rs.75.95 crore as on September 30, 2018, indicating stable collections. CPL's MIS business is also seasonal to some extent, due to which it has to stock required inventory for installation. As a result, the outstanding inventory at the end of March every year is also sizably high, resulting in a long inventory holding period. Collectively, a long collection and inventory holding period translates into a long operating cycle for the company, but a significant part of these requirements are funded through a long creditor period.

Moderate liquidity: The overall liquidity position of CPL remained moderate on account of its sizeable working capital requirements, a long operating cycle in the MIS business and sizeable funding requirements for the DCA business. The monthly utilization of CPL's fund based working capital limits stood high at 95% for the trailing 12 months ended October 2018. CPL's has repayments of around Rs.2.50-7.50 crore over the next 2-3 years, which are expected to be met from internal accruals. However, increase in scale of DCA business and expansion in new geographies would require sizeable working capital for the company, which is expected to be met largely through availing of additional bank borrowings, as internal accruals are not expected to grow substantially.

Analytical approach: Combined analysis of Captain Polyplast Ltd. and Captain Pipes Ltd.
Owing to the operational, financial and managerial linkages between Captain Polyplast Ltd. (CPPL) and Captain Pipes Ltd. (CPLD) CARE has presented a 'combined' view of both the entities (referred to as CPL).

Applicable Criteria:
CARE's methodology for manufacturing companies
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non- Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
Shapar-based Captain Polyplast Ltd. (CPPL) was established in March 1997 by Mr. Ramesh Khichadia along with two other business associates. The company is engaged in the business of manufacturing and assembling of irrigation equipment including drip irrigation and sprinkler systems, trading of high density polyethylene (HDPE) pipes, PVC pipes and other allied products related to Micro Irrigation System (MIS). As on March 31, 2018, CPPL had an installed capacity to manufacture 8,200 metric tons per annum (MTPA) of MIS equipment of various grades at Shapar near Rajkot in Gujarat. In February 2017, the company also commenced agency business for various types of polymers of Indian Oil Corporation Ltd. (IOCL) as its del credere agent (DCA) and consignment stockist (CS) for Gujarat region.
CPPL's associate concern, Captain Pipes Limited (CPLD) is engaged in manufacturing of unplasticized Poly Vinyl Chloride (uPVC) pipes and fittings. Both companies are operated under common management and derive operational synergies between the two businesses apart from having cross equity holdings.

Brief financials of CPL are tabulated below:

(Rs. Crore)

Brief Financials (Combined)	FY17 (A)	FY18 (A)
Total operating income	153.40	149.28
PBILDT	19.39	16.35
PAT	5.28	3.45
Overall gearing (times)	1.21	1.34
Interest coverage (times)	2.31	2.06

A: Audited

During H1FY19, CPL, reported a TOI of Rs.84.24 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr. Harshveer Trivedi
Tel: 079-4026 5610
Mobile: 85111 90020
Email: harshveer.trivedi@careratings.com

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	20.50	CARE BBB-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	11.00	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	15.50	CARE A3
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based-Short Term	-	-	-	20.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	20.50	CARE BBB-; Negative	1)CARE BBB-; Negative (07-Jan-19) 2)CARE BBB-; Negative (24-Aug-18) 3)CARE BBB-; Stable (05-Jun-18)	1)CARE BBB-; Positive (10-Nov-17)	1)CARE BBB- (23-Sep-16)	1)CARE BBB- (29-Jul-15) 2)CARE BBB- (20-Jul-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A3	1)CARE A3 (07-Jan-19) 2)CARE A3 (24-Aug-18) 3)CARE A3 (05-Jun-18)	1)CARE A3 (10-Nov-17)	1)CARE A3 (23-Sep-16)	1)CARE A3 (29-Jul-15) 2)CARE A3 (20-Jul-15)
3.	Non-fund-based - ST-Letter of credit	ST	15.50	CARE A3	1)CARE A3 (07-Jan-19) 2)CARE A3 (24-Aug-18) 3)CARE A3 (05-Jun-18)	1)CARE A3 (10-Nov-17)	1)CARE A3 (23-Sep-16)	1)CARE A3 (29-Jul-15) 2)CARE A3 (20-Jul-15)
4.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB-; Negative (07-Jan-19) 2)CARE BBB-; Negative (24-Aug-18) 3)CARE BBB-; Stable (05-Jun-18)	1)CARE BBB-; Positive (10-Nov-17)	1)CARE BBB- (23-Sep-16)	1)CARE BBB- (29-Jul-15) 2)CARE BBB- (20-Jul-15)
5.	Fund-based-Short Term	ST	20.00	CARE A3	1)CARE A3 (07-Jan-19) 2)CARE A3 (24-Aug-18) 3)CARE A3 (05-Jun-18)	1)CARE A3 (10-Nov-17)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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