Captain Polyplast Limited

June 05, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	21.54	**CARE BBB-; Stable [Triple B Minus; Outlook: Stable]**	Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)
Short-term Bank Facilities	46.50	**CARE A3 [A Three]**	Reaffirmed
Total Facilities	**68.04 (Rs. Sixty eight crore and four lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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

The revision in the outlook for the long term bank facilities of CPL takes into account the moderation in its profitability during FY18 as increased raw material costs could not be passed on to customers amidst a competitive industry scenario.

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 and its reputed clientele along with its financial risk profile marked by comfortable capital structure and debt coverage indicators. The ratings further derive strength from moderation in client concentration with diversification of revenue profile through commencement of sales in other states.

The ratings, however, are constrained on account of CPL's high working capital intensity of operations and exposure to volatility in raw material prices. The ratings also continue to remain constrained on account of linkage of the industry to agricultural sector and dependence on government policies.

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

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.

Reputed customers with reduction in customer concentration: CPL is focusing on diversification of its revenue profile with the expansion of its presence in other states. CPL is registered with Gujarat Green Revolution Co. Ltd. (GGRCL) as a supplier for micro irrigation system (MIS) products, which is CPL's largest customer. However, the revenue from GGRCL reduced from 35% of CPL's sales in FY17 to 24% in FY18, leading to a reduction in customer concentration. The contribution of Gujarat in overall sales reduced to 43% in FY18 compared to 61% in FY17 with reduction in sales in Gujarat for its MIS products, while that to other states increased on the back of registration with other state government agencies obtained in the past few years.

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

Comfortable debt coverage indicators: Total debt availed by CPL as on FY18 end remained in line with the previous year-end, primarily on account of stable working capital requirements and no new long-term debt availed for any capex. Consequently, CPL's debt coverage indicators and leverage position remained comfortable as on March 31, 2018.

Key Rating Weaknesses

Moderation in profitability during FY18: CPL's total operating income (TOI) remained largely stable during FY18, despite reduced sales in Gujarat and lower sales of CPLD's uPVC pipes amidst slowdown in demand from the irrigation sector following GST. This lower sale in Gujarat and that for uPVC, was, however, largely offset by increased sales of MIS products in other states. However, CPL's operating profitability, on a combined basis moderated during FY18, reflecting the de-stocking at low prices during the initial part of the year and increased cost of raw materials (plastic granules), particularly in CPLD, which could not be passed on to consumers in a competitive market. On a standalone basis, CPLD reported a net loss of Rs.1.50 crore on a total operating income of Rs.43.76 crore during FY18, a majority of which was incurred during the initial part of the year.

Working capital intensive operations: CPL's operations are working capital intensive as it requires investment in both receivables (inherent to the MIS business) as well as inventory (as it maintains adequate inventory for its peak delivery seasons). The collection period in the MIS industry remains long, as around 50-85% of the total sales value is in the form of subsidy from the government, which is received within a period of 90-180 days post commissioning and inspection of the MIS installation (which takes around 30 days after delivery). As a result, CPL's operating cycle of remains elongated.

Dependence on the agricultural sector and government policies: 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.

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

Applicable Criteria

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

About the Company

Shapar-based Captain Polyplast Limited was established in March 1997 by Mr. Ramesh Khichadia along with two other business associates. It is engaged in the business of manufacturing and trading of High-density polyethylene (HDPE) pipes, PVC pipes and also assembling of irrigation equipment including drip irrigation systems, sprinkler irrigation systems and other various allied products related to Micro Irrigation System (MIS). As on March 31, 2018, it has an installed capacity of 8,200 metric tonnes per annum (MTPA) for manufacturing different grades of pipes. CPL's group company, Captain Pipes Limited (CPLD) is engaged in manufacturing unplasticized Poly Vinyl Chloride (uPVC) pipes and fittings. Both companies are operated under common management and derive operational synergies between the two businesses.

(Rs. Crore)

Brief Financials (Combined)	FY16 (A)	FY17 (A)
Total operating income	154.14	153.40
PBILDT	17.71	18.77
PAT	4.38	5.24
Overall gearing (times)	1.42	1.21
Interest coverage (times)	2.16	2.40

A –Audited

(Rs. Crore)

Brief Financials – Standalone	Captain Polyplast Limited		Captain Pipes Limited	
	FY17 (A)	FY18 (Prov.)	FY17 (A)	FY18 (Prov.)
Total operating income	115.19	126.16	53.57	43.76
PBILDT	16.07	16.29	3.35	0.73
PAT	4.96	5.50	0.32	(1.50)
Overall gearing (times)	0.74	1.29	1.05	0.70
Interest coverage (times)	2.53	2.75	1.66	0.36

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

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.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of 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-; Stable
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	-	-	March 2018	1.04	CARE BBB-; Stable
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-; Stable	-	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 (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 (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	1.04	CARE BBB-; Stable	-	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 (10-Nov-17)	-	-

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