

Captain Polyplast Limited

August 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	21.54	CARE BBB-; Negative [Triple B Minus; Outlook: Negative]	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
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 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 moderation in client concentration with diversification of revenue profile through commencement of sales in other states.

The ratings, however, are constrained by decline in CPL's total operating income (TOI) and profitability as well as deterioration in its debt coverage indicators during Q1FY19. The ratings also constrained on account of CPL's high working capital intensity of operations which further intensified with delay in receipt of subsidy payment from government agencies, its exposure to volatility in raw material prices as well as linkage of the industry to agricultural sector with dependence on government policies.

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

Outlook: Negative

The revision in the outlook for the long term bank facilities of CPL reflects CARE's expectation of decline in CPL's scale of operations and profitability as well as weakening of its financial risk profile in FY19 on account of delay in renewal of registration as approved vendor with various state government agencies for supply of micro-irrigation equipment. The outlook may be revised to 'Stable' if the company is able to achieve the envisaged scale of operations and profitability with timely renewal of requisite registrations along with improvement in its collection cycle and debt coverage indicators.

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.

Key Rating Weaknesses

Decline in scale of operations and moderation in profitability along with deterioration in debt coverage indicators during Q1FY19: On a standalone basis, during Q1FY19, CPL's TOI declined significantly primarily due to issues related to

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

renewal of registration as an approved vendor for MIS (which makes it eligible for subsidy on its supplies) in its key states of operations. CPL's operating profitability during Q1FY19 was also impacted due to reduced pricing flexibility and operating leverage inherent to the business. On a combined basis, overall gearing deteriorated to 1.54x as on June 30, 2018, compared with 1.18x as on March 31, 2018, primarily on account of higher working capital borrowings availed to fund the elongated receivables, mainly subsidy payments from various government agencies.

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 of which, CPL's operating cycle 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

During Q1FY19, CPL, on a standalone basis, reported a TOI of Rs.21.78 crore and PAT of Rs.0.41 crore as against a TOI of Rs.43.16 crore and PAT of Rs.1.67 crore in Q1FY18.

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.

Analyst Contact:

Name: Mr. Harshveer Trivedi

Tel: 079-4026 5610

Mobile: 85111 90020

Email: harshveer.trivedi@careratings.com

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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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-; 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	-	-	March 2018	1.04	CARE BBB-; Negative
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-; 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 (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 (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	1.04	CARE BBB-; Negative	1)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 (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**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@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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