Captain Polyplast Limited

September 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term bank facilities	38.67 (enhanced from 20.50)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Reaffirmed
Short Term bank facilities	81.68 (enhanced from 71.50)	**CARE A4+ (A Four Plus)**	Reaffirmed
Total Facilities	**120.35 (Rupees One Hundred Twenty crore and Thirty Five lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Captain Polyplast Limited (CPPL) continue to remain constrained on account of its moderate scale of operations, dependence on government agencies for receipt of subsidies in its micro irrigation system (MIS) business and high reliance on bank borrowings to fund the working capital requirements amidst elongated payments of these subsidies, its moderate capital structure and debt coverage indicators and stretched liquidity.

The ratings, however, continue to derive strength from CPPL's experienced promoters, its established operations in MIS business with reputed clientele, geographic diversification of its operations over last few years with sales in states other than Gujarat and improvement in profitability.

Rating Sensitivities

Positive Factors

- *Increase in total operating income (TOI) beyond Rs.300 crore through healthy volume driven growth, along with sustenance of PBILDT margin at over 15%*
- *Improvement in overall gearing to 1.20x on sustained basis, with reduced reliance on external borrowings to fund working capital requirements*
- *Reduction in gross working capital cycle (receivables + inventory) to less than 200 days*

Negative Factors

- *Decline in TOI to below Rs.120 crore*
- *Decline in PBILDT margin to below 10%, on sustained basis*
- *Elongation in gross working capital cycle to beyond present level of 280 days with further increase in working capital borrowings to fund these requirements*
- *Any major write offs in the inventory or non-recovery of any major receivable*
- *Any large-sized debt funded capex adversely affecting the debt coverage indicators and liquidity*

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations: The scale of operations of CPPL increased y-o-y by 26% during FY20 vis-à-vis FY19 levels; albeit continued to remain moderate at Rs.189.54 crore. Apart from MIS business, company also earns commission income as a del-credere agent for polymers; however its contribution in company's total revenue profile is marginal.

Further, during Q1FY21, the company reported TOI of Rs.37.53 crore, largely in line with Q1FY20 level. Operations of the company were shut down for few days in the months of March and April 2020, due to a nationwide lockdown announced by the government on account of outbreak of Covid-19 pandemic. Post this, company resumed full-scale operations.

Elongated collection of government subsidies resulting in elevated working capital requirements: CPPL's collection period continued to remain high (at around 199 days in FY20, increased from around 162 days in FY18) due to delays in recovery from customers in its MIS business, which are primarily government agencies in various states (acting as the nodal agency for the MIS business in that state). This apart, company is also required to provide credit under its del credere agency business for polymers of Indian Oil Corporation Ltd. (IOCL). These result in sizeable working capital requirements, which are funded through bank borrowings including dealer financing limits of IOCL, alongwith creditors. Thus, dependence on bank debt remains high in light of elevated working capital requirements.

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

Moderate capital structure and debt coverage indicators: Capital structure of CPPL remained moderate with an overall gearing (incl. acceptances) of 1.64x as on March 31, 2020, albeit with marginal improvement from FY19 level of 1.82x owing to accretion of profits to reserves. Total outside liabilities to tangible networth (TOL/TNW) continued to remain high at 2.85x as on March 31, 2020 (3.24x as on March 31, 2019) due to significant credit availed by the company to fund its working capital requirements.
Debt coverage indicators of the company continued to remain moderate, marked by total debt/GCA of 5.27x (P.Y.:8.47x) and PBILDT interest coverage of 3.12x (P.Y.: 2.59x). Marginal improvement in the same was due to improved generation of cash accruals during FY20; though debt levels continued to remain elevated owing to higher working capital borrowings and term debt availed for recent capacity expansion.

Dependence on the agricultural sector and government policies; albeit favourable growth prospects for MIS sector: Around 50% of the arable land in India is rain-fed and the problem of water scarcity prevails in the country, thus there is a huge potential for the growth of MIS in the nation. However, demand for MIS products is subject to risks associated with the vagaries of nature, seasonality and government policies, including payment of subsidy.

Liquidity – Stretched: Liquidity of company continues to remain stretched, marked by an elongated working capital cycle of 155 days during FY20 (P.Y.: 180 days). This is largely driven by significant investment required in both receivables (inherent to the MIS business) as well as inventory (as it maintains adequate inventory for its peak delivery season). These result in high utilisation of the working capital limits, which averaged at 74% for trailing eight months ended August 2020, with higher utilisation during select months despite recent enhancement in working capital limits. Also, cash flow from operating activities (CFO) has remained negative during last three years ended FY20, funded through incremental working capital limits.
CPPL's cash accruals are expected to adequately meet its moderate debt repayment obligations of Rs.3 to 4 crore over next two years; however timely recovery of outstanding receivables from various state governments would remain crucial for the company, as any inordinate delays in the same would result in further pressure on company's liquidity.
CPPL has availed moratorium for the period March 2020 to August 2020 from one of its two lenders on working capital limits and a covid-loan; an option provided by RBI as a Covid-19 pandemic relief measure. Company has not availed moratorium from the other lender.

Key Rating Strengths

Experienced promoters and established track record of operations in MIS business: The promoters of CPPL, Mr. Ramesh Khichadia, Mr. Askok K. Patel and Mr. Gopal D. Khichadia, have over two decades long experience in the MIS business. Mr. Ramesh Khichadia (B. Tech in Agriculture Engineering), key promoter and managing director, has more than two decades of experience in irrigation system implementation.
Furthermore, company has established operations in MIS business. Presently, CPPL has got itself registered as an authorized and registered supplier for MIS for around 16 state government authorities, including Gujarat, Andhra Pradesh, Tamil Nadu, Karnataka and Telangana. In addition to its primary manufacturing facility located near Rajkot in Gujarat, CPPL established its manufacturing facility at Kurnool in Andhra Pradesh, which commenced operations from May 2019. The products from this facility would be utilized to meet the supplies to South Indian states.

Reputed clientele with gradual geographic diversification: Over the last few years, CPPL has focused on diversification of its revenue by expanding its presence in states other than Gujarat. As a part of this, CPPL has obtained/renewed licenses to operate as an authorized supplier for MIS for 16 states in India, which has reduced its dependency on Gujarat. However, Gujarat continues to be the largest revenue contributor for CPPL due to its established presence in the state, with over 40% contribution to sales in last three years ended FY20.

Improvement in profitability; albeit susceptible to volatile input prices: Company's profitability improved significantly during FY20, as indicated by a PBILDT margin of 16.64% registered during FY20 (P.Y.: 12.65%) and PAT margin of 6.65% (P.Y.: 4.79%). This was mainly on account of growth in TOI, leading to better absorption of fixed overheads, along with lower raw material prices. The company also benefits in terms of price and availability of various types of polymers, its key raw material, being an agent and stockist of the same. During Q1FY21, profitability of the company improved further, with a PBILDT margin of 19.48% and PAT margin of 7.97% registered during the quarter.
Company's profitability, however, remains susceptible to volatile prices of granules, which are a derivative of crude oil and are thus impacted by fluctuations in the prices of the latter.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector

About the Company
Rajkot, Gujarat based CPPL was established in March 1997 by Mr. Ramesh Khichadia along with two other business associates. CPPL is engaged in the business of manufacturing and assembling of irrigation equipment including drip irrigation and sprinkler systems, high density polyethylene (HDPE) pipes, PVC pipes and other allied products related to MIS. As on March 31, 2019, CPPL had an installed capacity to manufacture 8,200 metric tons per annum (MTPA) of MIS equipment of various grades at its manufacturing facility located at Shapar near Rajkot in Gujarat. Further, in May 2019, CPPL commenced production at its greenfield facility at Kurnool, Andhra Pradesh having an installed capacity of 5,940 MTPA for manufacturing of various types of pipes and MIS systems.
In February 2017, CPPL 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 operate under common management and derive operational synergies between the two businesses, apart from having cross equity holdings.

Brief standalone financials of CPPL:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	150.36	189.54
PBILDT	19.01	31.55
PAT	7.20	12.60
Overall gearing (times)	1.82	1.64
Interest coverage (times)	2.59	3.12

A: Audited
Further, as per the published financial results for Q1FY21, on a standalone basis, CPPL reported TOI of Rs.37.53 crore and PAT of Rs.2.99 crore, compared with TOI of Rs.37.91 crore and PAT of Rs.2.72 crore in Q1FY20.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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	-	-	-	32.10	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	11.00	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	15.50	CARE A4+
Fund-based-Short Term	-	-	-	55.00	CARE A4+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.18	CARE A4+
Fund-based - LT-Working Capital Demand loan	-	-	April 2022	2.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	December 2023	4.57	CARE BB+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	32.10	CARE BB+; Stable	-	1)CARE BB+; Stable (31-Dec-19)	1)CARE BBB-; Negative (29-Jan-19) 2)CARE BBB-; Negative (07-Jan-19) 3)CARE BBB-; Negative (24-Aug-18) 4)CARE BBB-; Stable (05-Jun-18)	1)CARE BBB-; Positive (10-Nov-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A4+	-	1)CARE A4+ (31-Dec-19)	1)CARE A3 (29-Jan-19) 2)CARE A3 (07-Jan-19) 3)CARE A3 (24-Aug-18) 4)CARE A3 (05-Jun-18)	1)CARE A3 (10-Nov-17)
3.	Non-fund-based - ST-Letter of credit	ST	15.50	CARE A4+	-	1)CARE A4+ (31-Dec-19)	1)CARE A3 (29-Jan-19) 2)CARE A3 (07-Jan-19) 3)CARE A3 (24-Aug-18) 4)CARE A3 (05-Jun-18)	1)CARE A3 (10-Nov-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (29-Jan-19) 2)CARE BBB-; Negative (07-Jan-19) 3)CARE BBB-; Negative (24-Aug-18) 4)CARE BBB-; Stable (05-Jun-18)	1)CARE BBB-; Positive (10-Nov-17)
5.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (29-Jan-19) 2)CARE BBB-; Negative (07-Jan-19) 3)CARE BBB-; Negative (24-Aug-18) 4)CARE BBB-; Stable (05-Jun-18)	1)CARE BBB-; Positive (10-Nov-17)
6.	Fund-based-Short Term	ST	55.00	CARE A4+	-	1)CARE A4+ (31-Dec-19)	1)CARE A3 (29-Jan-19)	1)CARE A3 (10-Nov-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
							2)CARE A3 (07-Jan-19) 3)CARE A3 (24-Aug-18) 4)CARE A3 (05-Jun-18)	
7.	Non-fund-based - ST-Credit Exposure Limit	ST	0.18	CARE A4+	-	-	-	-
8.	Fund-based - LT-Working Capital Demand loan	LT	2.00	CARE BB+; Stable	-	-	-	-
9.	Fund-based - LT-Term Loan	LT	4.57	CARE BB+; Stable	-	-	-	-

Annexure-3 Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based-Short Term	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Credit Exposure Limit	Simple
6.	Non-fund-based - ST-Letter of credit	Simple

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.*

Contact us

Media Contact
Mrudul Mishra
Contact no. - +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact
Name: Ms. Nikita Goyal
Tel: 079-40265670
Email: nikita.goyal@careratings.com

Business Development contact
Mr. Deepak Prajapati
Contact no. +91-79-4026 5656/9099028864
Email ID - deepak.prajapati@careratings.com

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**