Captain Polyplast Limited

November 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	21.54 (reduced from Rs.23.02 crore)	**CARE BBB-; Positive [Triple B Minus; Outlook: Positive]**	Reaffirmed
Short-term Bank Facilities	46.50 (enhanced from Rs.26.50 crore)	**CARE A3 [A Three]**	Reaffirmed
Total Facilities	**68.04 (Rs. Sixty eight crore and four lakh only)**		

Details offacilities 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 Captain Polyplast Ltd. continue to derive strength from the vast experience and established track record of the promoters of CPL in the agricultural equipment industry, reputed clientele and financial risk profile marked by comfortable capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained on account of CPL's client concentration risk which albeit moderated during FY17 (FY refers to the period from April 1 to March 31) with commencement of sales in other states, high working capital intensity, exposure to volatility in raw material prices and moderate liquidity position due to long collection period. 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 maintaining its profitability and comfortable capital structure, further diversify its customer profile, improve its liquidity with efficient management of its working capital cycle are the key rating sensitivities.

Outlook: Positive

The positive outlook reflects CARE's expectation of CPL showing growth in its scale of operations along with diversification in customer profile while maintaining its profitability and financial risk profile. The outlook may be revised to 'Stable' if the company is unable to achieve the envisaged diversification in its revenue profile and consequently fails to increase its scale of operations.

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 52% of CPL's sales in FY16 to 35% in FY17, leading to a reduction in customer concentration. Also, with the commencement of sales in Rajasthan and Andhra Pradesh, the contribution of Gujarat in overall sales had reduced to 61%

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

in FY17 compared to 91% in FY16. This is expected to further reduce going forward, with CPL obtaining registration with other state government agencies for its MIS products.

Comfortable debt coverage indicators: CPL's total operating income (TOI) remained stable in FY17 on back of the expansion of operations to new states like Rajasthan and Andhra Pradesh. Operating profitability on a combined basis also improved marginally, leading to better PAT and GCA.Total debt availed by CPL as on FY17 end remained in line with the previousyear-end, primarily on account of stable working capital requirements and no new long-term debt availed for any Cap-Ex. Consequently, CPL's debt coverage indicators remained comfortable as on March 31, 2017.

Key Rating Weaknesses

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 the company remained elongated at 100 days in FY17.

Profitability exposed to volatile raw material prices: A major part of CPL's MIS and plastic products are manufactured from plastic granules. The prices of these granules, being crude oil derivatives, exhibit volatility with a change in the price of crude oil. CPL sources its raw materials primarily from large manufacturers of these petrochemicals and has low bargaining power vis-à-vis its suppliers. CPL's profitability is hence, exposed to any adverse change in raw material prices, given its limited ability to pass on the effect of any adverse movement in these to its customers in the competitive MIS industry.

Dependence on the agricultural sector and government policies: MIS are subject to risks associated with the vagaries of nature, seasonality 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. Also, the announcement in Union Budget 2016-17 to increase agriculture hectare under irrigation on to 28.50 lakh hectares in India and creation of dedicated irrigation fund of Rs.20,000 crore under National Bank for Agriculture and Rural Development (NABARD) further adds impetus for growth in irrigation sector.

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, 2017, it has an installed capacity of 8,200 metric tonnes per annum (MTPA) for manufacturing different grades of pipes. The 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.

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

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-; Positive
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-; Positive
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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	20.50	CARE BBB-; Positive	-	1)CARE BBB- (23-Sep-16)	1)CARE BBB- (29-Jul-15) 2)CARE BBB- (20-Jul-15)	1)CARE BB+ (18-Jun-14)
2.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A3	-	1)CARE A3 (23-Sep-16)	1)CARE A3 (29-Jul-15) 2)CARE A3 (20-Jul-15)	1)CARE A4+ (18-Jun-14)
3.	Non-fund-based - ST-Letter of credit	ST	15.50	CARE A3	-	1)CARE A3 (23-Sep-16)	1)CARE A3 (29-Jul-15) 2)CARE A3 (20-Jul-15)	1)CARE A4+ (18-Jun-14)
4.	Fund-based - LT-Term Loan	LT	1.04	CARE BBB-; Positive	-	1)CARE BBB- (23-Sep-16)	1)CARE BBB- (29-Jul-15) 2)CARE BBB- (20-Jul-15)	1)CARE BB+ (18-Jun-14)
5.	Fund-based-Short Term	ST	20.00	CARE A3	-	-	-	-

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