# Captain Polyplast Limited

December 31, 2019

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Ratings[1]** | **Rating Action** |
|---|---|---|---|
| Long-term Bank Facilities | 20.50 | **CARE BB+; Stable (Double B Plus; Outlook: Stable)** | Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) |
| Short-term Bank Facilities | 71.50 (enhanced from Rs.46.50 crore) | **CARE A4+ (A Four Plus)** | Revised from CARE A3 (A Three) |
| **Total Facilities** | **92.00 (Rupees Ninety Two Crore only)** | | |

*Details of instruments/facilities in Annexure-1;*

**Detailed Rationale & Key Rating Drivers**

The revision in ratings for the bank facilities of Captain Polyplast Limited (CPPL) takes into account the deterioration in its capital structure and debt coverage indicators in FY19 (FY refers to the period from April 1 to March 31) and H1FY20. This deterioration is largely driven by its increased reliance on bank borrowings to fund higher working capital requirements amidst slow payments from customers in its micro irrigation system (MIS) business (primarily government entities), along with higher inventory holding. Consequently, CPPL's liquidity has become stretched with almost full utilization of its increased working capital limits.

The ratings further continue to remain constrained on account of CPPL's moderate scale of operations, dependence on government agencies for payment of subsidy, its exposure to volatility in raw material prices as well as linkages of its business to the agricultural sector with dependence on government policies.

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

**Rating Sensitivities**

**Positive Factors**

- Volume driven growth in total operating income (TOI) beyond Rs.300 crore along with sustained operating profitability (PBILDT) margin of more than 15%
- Improvement in overall gearing to below 1.20x on a long-term basis with reduced reliance on external borrowings to fund working capital requirements
- Reduction in operating cycle to less than 120 days with shortening in its collection period

**Negative Factors**

- Decline in TOI to lower than Rs.120 crore or decline in operating profitability with PBILDT margin below 10% on a sustained basis
- Elongation in working capital cycle to beyond 200 days from present working capital cycle of around 180 days and further increase in external borrowings to fund these requirements
- Any major write-off of inventory or non-recovery of any major receivable
- Any large sized debt-funded capex resulting in deterioration in debt coverage indicators in a limited time

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

***Significant elongation in collection period with increased reliance on bank borrowings to fund the receivables:*** CPPL's operations are working capital intensive in nature as it requires investment in both receivables as well as inventory. During FY19, CPPL's operating cycle elongated to 182 days, compared with 130 days in FY18. This was driven by sizeable increase in the overall level of outstanding receivables on the back of delay in recovery from customers in its MIS business, which consists primarily of government agencies in various states (acting as the nodal agency for the MIS business in that state). Further, CPPL's MIS business is seasonal to some extent, due to which it is required to stock required inventory for installation. Also, growth in the del credere agency (DCA) business for polymers of Indian Oil Corporation Ltd. (IOCL), which CPPL commenced in FY18 also translated into increase in its working capital requirements. CPPL's outstanding receivables and inventories increased to Rs.107.36 crore and Rs.29.02 crore

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

respectively as on end-FY19 as against Rs.59.77 crore and Rs.20.95 crore respectively as on end-FY18 and further increased to Rs.125.40 crore and Rs.32.15 crore respectively as at September 30, 2019. This increase in the working capital requirements was funded largely through additional bank borrowings availed by the company, including limits under dealer financing scheme (DFS) of IOCL.

***Deterioration in capital structure and debt coverage indicators:*** CPPL's outstanding debt as on FY19 end increased sizeably compared to that as on March 31, 2018, primarily driven by additional bank borrowings availed to fund working capital requirements along with the long-term debt availed for funding the establishment of its manufacturing facility at Kurnool in Andhra Pradesh (for catering to its supplies to South Indian states). CPPL's outstanding debt (incl. acceptances) increased from Rs.44.78 crore as on March 31, 2018 to Rs.75.01 crore as on March 31, 2019 and further to Rs.89.55 crore as on September 30, 2109. This also translated to deterioration in CPPL's overall gearing to 1.94x as on September 30, 2019, compared with 1.31x as on March 31, 2018. Further, the increase in debt coupled with its largely stable profitability also resulted in weakening of its debt coverage indicators, marked by a TD/GCA of 8.47x as on March 31, 2019, compared with 6.08x as on previous year end.

***Profitability exposed to volatility in raw material prices:*** A major part of CPPL's MIS products are manufactured through 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. CPPL 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 these large sized suppliers. CPPL'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 MIS 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, including payment of subsidy.

***Liquidity – Stretched:*** CPPL's liquidity remained stretched during FY19 & H1FY20 marked by its long operating cycle of around 180 days and almost full utilization of its working capital limits for the trailing 12 months ended October 2019. Its cash flow from operations was also negative at Rs.11.26 crore in FY19, albeit was aided by sizeable advances received from customers, a norm in the MIS business. CPPL's outstanding working capital bank borrowings (including creditors under LC) increased from Rs.41.12 crore as on March 31, 2018 to Rs.73.80 crore as on September 30, 2019. This was largely on account of delay in payment by CPPL's customers in its MIS business as well as growth in scale of its DCA business (which essentially consists of providing interest bearing credit to customers in lieu of the principal) along with increase in outstanding inventory in anticipation of further growth in scale of operations. However, CPPL has moderate debt repayment obligations in the range of Rs.1.59-6.62 crore over the next three years ending FY22, which are expected to be met through its envisaged cash accruals. Going forward, timely recovery of outstanding receivables from various state governments would be crucial for CPPL and any inordinate delay in this can result in further pressure on its liquidity.

**Key Rating Strengths**

***Vast experience of promoters and established track record 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. Presently, CPPL has got itself registered as an authorized and registered supplier for MIS for around 16 state government authorities including that of Gujarat, Andhra Pradesh, Tamil Nadu, Karnataka and Telangana. Further, 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 total cost of the project was Rs.11.59 crore, which was funded through a mix of term loan, unsecured loan and internal accruals. The products from this facility would be utilized to meet the supplies to South Indian states.

***Reputed customers 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 continued to be the largest revenue contributor for CPPL due to its established presence in the state. During FY19, Gujarat contributed to 42% of CPPL's sales.

***Improvement in its profitability during H1FY20; albeit moderate scale of operations:*** CPPL's total operating income (TOI) grew by 19% y-o-y during FY19 and 51% y-o-y in H1FY20. However, its scale of operations remained moderate, marked by its TOI of Rs.150.36 crore during FY19 and Rs.79.98 crore in H1FY20. CPPL's PBILDT margin remained stable at 12.65% for FY19 but improved to 17.34% in H1FY20, with growth in scale of operations and some favourable movement in raw material prices.

**Analytical approach:** Standalone

For the analysis of CPPL, CARE had previously taken a 'Combined' analytical view of CPPL and Captain Pipes Ltd. (CPLD), its associate entity due to their managerial, operational and financial linkages. However, this approach has now been changed to 'Standalone' in line with change in CARE's rating criteria on consolidation and factoring linages in rating whereby 'Listed' entities won't be assessed on 'Combined' analytical approach.

**Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology – Consolidation and Factoring Linkages in Ratings

**About the Company**

Rajkot, Gujarat based Captain Polyplast Limited (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 Micro Irrigation System (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. 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. Further, in May 2019, CPPL commenced production at its greenfield production facility at Kurnool, Andhra Pradesh having installed capacity of 5,940 MTPA for manufacturing of various types of pipes and MIS systems.
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 Financials of CPPL are tabulated below:**

| Brief Financials (Rs. Crore) | FY18 (A) | FY19 (A) |
|---|---:|---:|
| Total operating income | 126.88 | 150.36 |
| PBILDT | 16.29 | 19.01 |
| PAT | 5.50 | 7.20 |
| Overall gearing (times) | 1.31 | 1.82 |
| Interest coverage (times) | 2.75 | 2.59 |

*A – Audited;*

Further, as per the published financial results for H1FY20, on a standalone basis, CPPL reported a total operating income of Rs.79.98 crore and PAT of Rs.4.91 crore, compared with a total operating income of Rs.53.00 crore and PAT of Rs.1.42 crore in H1FY19.

**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 | - | - | - | 20.50 | 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 | - | - | - | 45.00 | CARE A4+ |

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 20.50 | CARE BB+; Stable | - | 1)CARE BBB-; Negative (29-Jan-19)<br>2)CARE BBB-; Negative (07-Jan-19)<br>3)CARE BBB-; Negative (24-Aug-18)<br>4)CARE BBB-; Stable (05-Jun-18) | 1)CARE BBB-; Positive (10-Nov-17) | 1)CARE BBB- (23-Sep-16) |
| 2. | Non-fund-based - ST-Bank Guarantees | ST | 11.00 | CARE A4+ | - | 1)CARE A3 (29-Jan-19)<br>2)CARE A3 (07-Jan-19)<br>3)CARE A3 (24-Aug-18)<br>4)CARE A3 (05-Jun-18) | 1)CARE A3 (10-Nov-17) | 1)CARE A3 (23-Sep-16) |
| 3. | Non-fund-based - ST-Letter of credit | ST | 15.50 | CARE A4+ | - | 1)CARE A3 (29-Jan-19)<br>2)CARE A3 (07-Jan-19)<br>3)CARE A3 (24-Aug-18)<br>4)CARE A3 (05-Jun-18) | 1)CARE A3 (10-Nov-17) | 1)CARE A3 (23-Sep-16) |
| 4. | Fund-based - LT-Term Loan | LT | - | - | - | 1)Withdrawn (29-Jan-19)<br>2)CARE BBB-; Negative (07-Jan-19)<br>3)CARE BBB-; Negative (24-Aug-18)<br>4)CARE BBB-; Stable (05-Jun-18) | 1)CARE BBB-; Positive (10-Nov-17) | 1)CARE BBB- (23-Sep-16) |
| 5. | Fund-based- | ST | 45.00 | CARE A4+ | - | 1)CARE A3 | 1)CARE A3 | - |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| | Short Term | | | | | (29-Jan-19)<br>2)CARE A3<br>(07-Jan-19)<br>3)CARE A3<br>(24-Aug-18)<br>4)CARE A3<br>(05-Jun-18) | (10-Nov-17) | |

***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.



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