Gulshan Polyols Limited

January 17, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	141.25 (reduced from 175.75)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	8.75 (enhanced from 3.25)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**150.00 (Rs. One Hundred Fifty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation for the ratings assigned to the bank facilities of Gulshan Polyols Limited (GPL) continue to derive strength from GPL's comfortable financial risk profile characterized by comfortable solvency and debt coverage indicators along with growing scale of operations. The ratings also take into account extensive experience of GPL's promoters and management team with established track record of operations, diversified product profile and its reputed clientele from various industries. The ratings are, however, constrained by volatility in prices of agro-based raw material and consequent impact on margins and competition from organized and unorganized players. Going forward, the company's ability to sustain & enhance its profitability margins, to enhance its operations from the distillery segment and maintain its capital structure with effective working capital management would remain the key rating sensitivities.

Rating Sensitivities

Positive Factors

- Sustained growth in turnover by more than 20% with stable or enhanced profitability margins over the projected years
- Sustenance of the financial risk profile, backed by efficient working capital management

Negative Factors

- Any deterioration in the Capital structure with overall gearing increasing beyond 0.7x on a sustained basis for 2 years or more going forward
- Total debt to GCA rising above 4x on a sustained basis
- Significant increase in the operating cycle on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

The promoter of GPL, Dr CK Jain, B.Sc. and Ph. D, has an experience of over four decades in indigenizing, developing and operating the chemicals industry. The company's senior management team comprises well-qualified and experienced professionals. The company's board comprises of ten directors of which five are independent directors looking after separate operational areas.

Diversified product profile

GPL has a diversified range of products comprising of Calcium Carbonate (CC), Sorbitol & liquid glucose (LG) and starch in its product portfolio. The manufacturing facilities for CC and starch (corn grinding) are located at Muzaffarnagar (UP), Dhaula Kuan (HP) and Bharuch (Gujarat) with total installed capacity of 1,06,000 MTPA for CC and 87000 MTPA for sorbitol and liquid glucose and 60,000 MTPA for starch as on March 31, 2019. The company is also manufactures by-products like like germ, gluten, corn oil and animal feed used for cattle and poultry feed.

The company has also set up facilities for Onsite Precipitated Calcium Carbonate (Onsite PCC) Plant for various companies in Paper Industry including ITC Ltd, Orient Paper Mill, etc. The Onsite PCC plants for paper mills is a patent technology developed by the company which helps GPL to derive economy in cost, production and supply chain.

Further, from Dec 2017, GPL had commenced the commercial production of ENA and Rectified Spirit and as on date the total installed capacity of the same stands at 60,000 liters per day. As on March 31, 2019, GPL made sales of Rs.25.54 crore for ENA/ IMFL but now the company is going slow on its production in this segment as it is not able to recover the cost made for such investment. Further, GPL is awaiting license from the state government for the production of country liquor which is

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

likely to be received in Feb 2020. Ability of the company to enhance its scale of operations from this segment along with other segments is crucial to enhance its overall financial profile.

Reputed clientele from diverse industries

The client profile of GPL is diversified and includes reputed players from various industries. GPL derives its revenue from sale of products like sorbitol, liquid glucose, fructose, CC, by-products and ENA/IMFL as well as trading of calcium carbonate. Sorbitol, starch and its derivative products find application in diverse industrial and commercial uses such as food & drink, paper & board, personal care & pharmaceuticals, textile, FMCG, animal & pet foods etc. CC is used in PVC irrigation pipes and cables, paints, dentifrice, detergents, rubbers, plastics etc. along with personal health and food production. It is also used as a building material in marble and as an ingredient of cement.

During FY19, GPL reported total sales of Rs.658.81 crore, up from Rs.613.87 crore in FY18, an increase of ~7%. Out of total sales in FY19, export sales which are done to more than 40 countries across 3 continents contributed to ~13% of the total operating (PY: 12%).

Comfortable financial risk profile

The financial risk profile of GPL remained comfortable. In FY19, GPL achieved a total income of Rs.674.60 crore in comparison to Rs.616.45 crore in FY18, an increase of 9.43%. This was on account of increase in sales volume of by-products and alcohol products. The company has achieved total operating income of Rs.345.32 crore during H1FY20, which is ~51% of the total projected income for FY20. In FY19, PBILDT and PAT margins were stable. The overall gearing of GPL stood at 0.50x as on March 31, 2019 improved from 0.67x as on March 31, 2018 on account of scheduled repayments & enhanced net worth base due to accretion of profits to reserves.

Liquidity: Adequate

The liquidity profile of the company is comfortable with the average working capital utilization of ~58% for the last 12 months ending November 2019 leaving sufficient buffer in the working capital lines. The working capital requirement for the company remains moderate even during the procurement months as the company manages this through its internal accruals. The company has an operating cycle of 85 days as on March 31, 2019 on account of seasonal nature of raw materials. As on March 31, 2019, GPL had cash and bank balance of Rs.25.16 cr due to FDs and other short-term investments it had maintained with banks. As on Dec 25, 2019, GPL had maintained FDs of Rs.39.50 crore with banks. Current ratio and quick ratio stood at 1.31x (PY: 1.20x) and 0.95x (PY: 0.76x) respectively. Further, in FY20 GPL has repayment due for Rs 9.75 crore out of which Rs.7.25 crore is pending and all availed term loans shall be fully repaid by FY22.

Key Rating Weaknesses

Volatility in agro-based raw material availability & prices

Maize is mainly a rain fed kharif crop which is sown just before the onset of monsoon and is harvested after retreat of the monsoon. Cost of Maize remains high for the kharif crop where harvesting starts from mid-October owing to higher freight cost from Maharashtra and southern regions along with drought in these regions. The government has raised the MSP of kharif crops in a bid to address rural distress. The MSP for FY20 (Kharif crop season) stands around Rs.1760/quintal. The company also uses rice, another agricultural commodity, to manufacture dextrose monohydrate, malto dextrin powder, glucose powder and rice gluten for food and pharmaceutical applications.

Competition from the organized and small-scale unorganized units

In the Sorbitol industry, although the company is having a dominant position, it faces competition from other large organized players. Furthermore, the CC industry in India comprises of few organized players and other small scale unorganized players. GPL faces competition from both the organized and unorganized players. The company also faces competition from cheaper imports.

Industry Outlook

The Indian starch and derivatives market scenario has witnessed significant changes in the last few years. Starch production in India is highly fragmented, with a variety of manufacturers offering different sources, grades and derivatives of starch as per their distinctive capacity levels. Starch processing is one of the top five food processing industries in India with a significant history of high employment, food product growth and food infrastructure developments. Maize is the major raw material used to produce starches and the derivatives. Of the total maize produced in India, only 10 to 12 percent is being consumed by the starch industry. The growing consumption of convenience foods and the healthy year-on-year growth in the paper and textile industries are creating highly a fertile ground for the growth in corn starch sales across the world, but particularly in the Asia Pacific region. The major users of starches and derivatives are food, textile, paper, and pharma sectors. High-value food processing industry is a promising sector where the demand for starches and derivatives is in a

nascent stage, but strong. The demand for Indian starch in food is increasing by 20 percent with frozen food being the dominating segment; the use of starch in noodles and soups is also increasing, use of starch in ground spices is also a key contributor.
There are various grades and types of calcium carbonate available in the market such as activated CC, precipitated CC and ground CC with industrial products such as wet Ground CC, ground CC and ground natural CC. CC is used in PVC irrigation and cables, paints, dentifrice, detergents, rubbers, plastics etc.along with personal health and food production (e.g. dietary calcium supplement, antacid, phosphate binder, or base material for medicinal tablets etc.) It is also used as a building material in marble and as an ingredient of cement. The CC industry is dominated by the unorganized sector which is producing low grade of Calcium Carbonate. Growing construction activities and demand from industries, such as paper and pulp, plastic, and construction in Asia-Pacific are driving the growth of the calcium carbonate market.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the Company
GPL was incorporated in 1981 as Gulshan Sugar & Chemicals Ltd (GSCL) for manufacturing of Calcium Carbonate with an initial capacity of 2100 MTPA at Muzaffarnagar (UP). In 1996, GSCL diversified into manufacturing Sorbitol with an initial capacity of 15000 MTPA. In 2000, the Sorbitol business was demerged into a separate entity in the name of Gulshan Polyols Ltd (GPL). In 2007, the management decided to merge the two entities to drive cost benefits and improve overall profitability. In effect, GSCL was merged with GPL. Presently, GPL is engaged in the manufacturing of Calcium Carbonate (CC) and Sorbitol & Liquid Glucose (LG) and starch. The manufacturing facilities for CC are located at Muzaffarnagar (UP), Dhaula Kuan (HP), Abu Road (Rajasthan) and Patiala (Punjab) while that of Sorbitol & LG are located at Bharuch (Gujarat). Further, from Dec 2017, GPL had commenced the commercial production of ENA and Rectified Spirit and as on date the total installed capacity of the same stands at 60,000 liters per day. As on March 31, 2019, the total installed capacity of Sorbitol & LG stood at 87,000 MTPA, CC was 1,06,000 MT and starch was at 60,000 MTPA.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	616.45	674.60
PBILDT	69.64	84.36
PAT	18.24	21.43
Overall gearing (times)	0.67	0.50
Interest coverage (times)	6.44	5.92

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

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-Long Term	-	-	-	104.50	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	8.75	CARE A1+
Term Loan-Long Term	-	-	Feb 2022	36.75	CARE A+; 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 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-Long Term	LT	104.50	CARE A+; Stable	-	1)CARE A+; Stable (28-Dec-18)	1)CARE A+; Stable (07-Nov-17)	1)CARE A+ (12-Sep-16)
2.	Non-fund-based-Short Term	ST	8.75	CARE A1+	-	1)CARE A1+ (28-Dec-18)	1)CARE A1+ (07-Nov-17)	1)CARE A1+ (12-Sep-16)
3.	Term Loan-Long Term	LT	36.75	CARE A+; Stable	-	1)CARE A+; Stable (28-Dec-18)	1)CARE A+; Stable (07-Nov-17)	1)CARE A+ (12-Sep-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

<table>
<tr><th>Name of the Instrument</th><th>Detailed explanation</th></tr>
<tr><td colspan="2">Financial covenants</td></tr>
<tr><td>Term loan/ Working capital loans</td><td>The following covenants shall be applicable:
<table>
<tr><td>Covenant</td><td>FY20</td><td>FY21</td></tr>
<tr><td>External debt/ EBITDA (max)</td><td>3.0x</td><td>3.0x</td></tr>
<tr><td>External gearing</td><td>1.0x</td><td>1.0x</td></tr>
<tr><td>DSCR</td><td>1.5x</td><td>1.5x</td></tr>
<tr><td>FACR</td><td>1.25x</td><td>1.25x</td></tr>
</table></td></tr>
<tr><td>FCTL</td><td>GPL is expected to maintain following covenants during the tenor of the loan:
i. Minimum DSCR at 1.5x
ii. Debt/ EBITDA at 2.5x or below
iii. Minimum FACR of 1.25x</td></tr>
</table>

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:

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