

Gulshan Polyols Limited

December 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	175.75 (reduced from 199.44)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	3.25 (reduced from 5.56)	CARE A1+ (A One Plus)	Reaffirmed
Total facilities	179.00 (Rs. One Hundred Seventy-Nine Core Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Gulshan Polyols Ltd (GPL) continue to derive strength from GPL's comfortable financial risk profile characterized by growing scale of operations, comfortable solvency and debt coverage indicators. The ratings also take into account extensive experience of GPL's promoters and management team with established track record of operations, its reputed clientele from diverse industries along with diversified product profile.

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.

In FY18, the company has completed setting up ENA facility in Boregaon, Distt. Chhindwara (MP) with 60, 000 litres per day capacity. The total cost incurred stood around Rs 112.29 crore which was funded partly from internal accruals aggregating Rs 36.31 crore and partly through debt of Rs 75.98 crore.

Going forward, the company's ability to sustain profitability margins and managing gearing levels with effective working capital management would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

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 executive directors looking after separate operational areas.

Financial risk profile marked by comfortable working capital limits utilization (63%)

In FY18, the total income increased by 24.84% on account of increase in sales volume of starch from 32179 MT in FY17 to 46050 MT in FY18. PBILDT and PAT margins however moderated slightly on account of increase in raw material prices of maize and relatively lower realizations and higher interest costs and depreciation costs owing to new facility at Boregaon, MP.

The financial risk profile of GPL remained comfortable with repayment of term loans despite moderate increase in working capital limits as reflected by overall gearing (0.67 times as on March 31, 2018) on account of strong net-worth base (PY: 0.63x) and strong coverage indicators (interest coverage ratio of 6.38 times for FY18).

Liquidity

The liquidity profile of the company is comfortable with the average working capital utilization of 63% for the last 12 months ending October 2018. However, the working capital requirement for the company remains high during the procurement months. The company has an operating cycle of 88 days. The cash and cash equivalents of Rs 32.50 crore as on November 30, 2018 act as a cushion in terms of liquidity.

Diversified product profile

GPL has a diversified product profile comprising of Calcium Carbonate (CC), Sorbitol & liquid glucose (LG) and lately, the company has further added starch to its portfolio. The manufacturing facilities for CC and starch (corn grinding) are located at Muzaffarnagar (UP), Dhaula Kuan (HP), Bharuch (Gujarat), Sahibabad (UP) and Patiala (Punjab) with total

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

installed capacity of 135,000 MTPA for CC and 40000 MTPA for starch. The company has also facilities for Onsite Precipitated Calcium Carbonate (Onsite PCC) Plant for various companies in Paper Industry including ITC Ltd, Orient Paper Mill, etc. and will also maintain the supply of raw material for the same. The manufacturing unit for Sorbitol & LG is located in Bharuch (Gujarat) with total installed capacity of 87,000 MTPA as on March 31, 2018.

Further, the company has set up ENA (Extra Neutral Alcohol) manufacturing facility at the same location and commenced the commercial production of ENA and Rectified Spirit from December 2017.

Reputed clientele from diverse industries

The client profile of GPL is diversified and includes reputed players from various industries. Sorbitol finds application in Tooth paste, Pharma, Vitamin-C Cosmetics, Paper and paints. Apart from this, GPL exports Sorbitol to over 25 countries covering three continents of Asia, Africa & Australia. CC is used as filler or extender in various chemical and allied industries such as PVC, Rubber, Oral care, paper, paints, pharmaceuticals etc. In FY18, exports contributed 12.04% of the total operating income. (FY17: 13.96%) and the top 10 customers contributed ~27.65% of the total sales in FY18.

Key Rating Weaknesses

Volatility in agro-based raw material availability & prices

GPL's major raw material for manufacture of Sorbitol, LG and starch is maize (corn) and is mainly available on seasonal basis from Punjab, Karnataka, Maharashtra and Andhra Pradesh (September-February) and Madhya Pradesh, Uttar Pradesh and Bihar (May-July). The maize prices remain volatile on account of fluctuations in minimum support prices (MSP) by the government, actual production levels, inflation, growth in the economy etc. Similarly, rice is used as a raw material in High fructose Rice Syrup (HFRS) which is also susceptible to volatility.

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 organized players. Furthermore, the Calcium carbonate 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.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology for Manufacturing Companies](#)

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for 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). The total installed capacity of Sorbitol & LG is 87,000 MTPA, CC is 1,06,000 MT and for starch is 60000 MT as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	492.76	615.15
PBILDT	60.46	68.99
PAT	27.34	18.24
Overall gearing (times)	0.63	0.67
Interest coverage (times)	9.79	6.38

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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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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	-	-	-	110.00	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	3.25	CARE A1+
Term Loan-Long Term	-	-	*	65.75	CARE A+; Stable

* Term loan aggregating Rs 32.50 crore: May 2022

FCTL aggregating Rs 33.25 crore: August 2020

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-Long Term	LT	110.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Nov-17)	1)CARE A+ (12-Sep-16)	1)CARE A+ (18-Sep-15)
2.	Non-fund-based-Short Term	ST	3.25	CARE A1+	-	1)CARE A1+ (07-Nov-17)	1)CARE A1+ (12-Sep-16)	1)CARE A1+ (18-Sep-15)
3.	Term Loan-Long Term	LT	65.75	CARE A+; Stable	-	1)CARE A+; Stable (07-Nov-17)	1)CARE A+ (12-Sep-16)	1)CARE A+ (18-Sep-15)

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