

National Plastic Industries Limited

August 10, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	30.81 (Reduced from 32.33)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	32.81 (Rs. Thirty-Two Crore and Eighty-One Lakhs Only)		

Details of instruments/facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of National Plastic Industries Limited (NPIL) continue to derive strength from its proven track record of more than five decades in plastic moulded products, experienced promoters in the plastics industry, well-established brand image with diversified product profile, and comfortable capital structure & debt coverage indicators. The ratings, however, are continue to be constrained by the modest scale of operations with moderate profitability coupled with susceptibility of profit margins to volatile raw material prices, working capital intensive nature of operations with high inventory holding, foreign exchange fluctuation risk and intense competition putting pressure on profit margins. The ratings, further, are also constrained by the project execution & stabilization risk inherent to new machineries procurement.

Rating Sensitivities

Positive Factors

- Increase in the scale of operation despite high competition with total operating income to attain a level of around Rs.150 crore on sustained basis.
- Improvement in the collection and inventory period reaching below 60 days with utilization of the working capital limits reaching below 75% on a sustained basis
- Improvement in the profit margins with PBILDT and PAT margins exceeding 10% and 5% on a sustained basis
- Improvement in the debt coverage indicators with interest coverage exceeding 5 times and total debt to Gross Cash Accruals reaching below 3 times on a sustained basis
- Successful completion of the proposed capex without any cost and time overrun and subsequent stabilization of the same.

Negative factors

- Deterioration in capital structure with overall gearing exceeding a unity level on a sustain basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with long track record of operations: The promoters (Parekh family) of NPIL have been involved in the business of manufacturing and marketing injection moulded plastic products for over 5 decades. Over the years of track record of operations, NPIL has developed strong association with the suppliers as well as customers thus, enabling it to garner regular orders from them.

Established brand name with diversified product portfolio: NPIL manufactures injection-moulded plastic products broadly classified into furniture, household & commercial items which are being sold under the brand name of 'National' for over five decades. NPIL covers wide range of products which finds its application in various purposes.

Comfortable capital structure & moderate debt coverage indicators: The capital structure of NPIL improved marginally on y-o-y basis marked by overall gearing reaching at 0.81 times as on March 31, 2020 from 0.91 times as on March 31, 2019 on the back of reduction in the total debt on the back of repayment of term loans along with increase in the tangible net worth base owing to subordination of unsecured loans and accretion of profits in the business. Further, total debt/GCA and interest coverage remains moderate at 5.38 times and 1.90 times respectively in FY20 (vis-à-vis 6.76 times and 2.63 times respectively in FY19).

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

Key Rating Weakness

Relatively modest scale of operations with moderate profitability: The scale of operations continues to remain modest with a total operating income of Rs.114.34 crore in FY20 and tangible net-worth of Rs.37.85 crore as on March 31, 2020. However, the total operating income has slightly increased by 2.35% y-o-y in FY20 owing to increase in revenues from various segments viz. coolers, trading activity, moulded plastic articles etc. Further, the profit margins declined and remained at moderate at 5.30% in FY20 owing to lower revenue generated during Q4FY20 due to COVID-19 outbreak wherein factories were shut from March 20, 2020 due to which NPIL could not able to recover its expenses.

Working capital intensive nature of operations: The operation of the company remained working capital intensive due to majority of the funds blocked in inventory and debtors. The inventory holding period has slightly declined to 88 days in FY20 from 92 days in FY19 due to lower purchases and processing done at year end. However, collection period increased to 72 days in FY20 from 61 days in FY19 owing to slower recovery of debtors. The above said reasons were attributable due to COVID-19 outbreak and lockdown imposed by GOI. Further, owing to low credit period received from its suppliers, dependence on external borrowings remained high leading to high utilization of working capital borrowings.

Susceptibility of margins to volatile raw material prices and foreign exchange fluctuation risk: The raw material prices have been fluctuating in the past and therefore the cost base remains exposed to any adverse price fluctuations in the prices of the key raw materials i.e. Polypropylene & Polystyrene. However in past, the company has been able to pass on the increase in raw material prices to the customers with a time lag. In addition to this, the profitability is also exposed to fluctuations in foreign currency, as the company exports around 15% of products.

Project execution & stabilization risk inherent to new machineries procurement: NPIL has proposed to procure new machineries at its Silvassa plant, totaling to Rs.4.54 crore, which are to be funded by way of bank term loan worth Rs.3 crore and the balance from internal accruals. However, funding risk mitigated to the greater extent due to debt fund was already tied up. Nevertheless, the company is exposed to project execution risk, since it has not yet incurred any expenses towards the said project. Moreover, the company is also exposed to subsequent stabilization risk with regard to timely commencement of production from the said machineries.

Intense competition putting pressure on margins: The company operates in a highly competitive and fragmented market which consists of large to small sized players. Moreover, low entry barriers in the industry further intensifies the already prevailing competition in the market. This competitive and fragmented nature of the industry can have an impact on the profit margin of the company and also led company to adopt liberal credit policy in the market.

Liquidity Position:

The liquidity position remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The free cash and bank balance stood at Rs.0.85 crore as on March 31, 2020. Its capex requirements are modular and expected to be funded using debt of Rs.3 crore for which it has sufficient headroom. Further, average utilization of the fund based working capital limits stood at 96.20% during past 12 months ended June 2020. The current ratio and quick ratio stood at 1.21x and 0.72x as on March 31, 2020. Further NPIL has availed the moratorium given as per the RBI guidelines against term loan and cash credit facilities availed from Corporation Bank for the period March-August 2020 and the same is approved by banker. However NPIL has not availed any moratorium given by RBI against bank facilities availed from Yes Bank.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial Ratios \(Non-Financial Sector\)](#)

About the Company

National Plastic Industries Limited (NPIL) was established in 1952 and is currently being managed by Mr. Paresh Parekh and Mr. Ketan Parekh. NPIL is mainly engaged in the business of manufacturing and marketing of injection moulded plastic products for over five decades. The company has three manufacturing units with total installed capacity of 18,650 MTPA which in FY20 operated at 39% capacity utilization (as compared to 43% for FY19). The products of NPIL can broadly be classified into furniture, household & commercial items which are sold under the brand name of 'National'. The company operates from its registered office located at Andheri (Mumbai) and also operates through its branches in Ghaziabad, Bangalore, Kerala and Punjab. On the other hand, its manufacturing facilities are located in Silvassa, Patna and Nellore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	111.72	114.34
PBILDT	8.50	6.06
PAT	2.23	2.11
Overall gearing (times)	0.91	0.81
Interest coverage (times)	2.63	1.90

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 - LT-Term Loan	-	-	Oct-2022	3.56	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	27.25	CARE BBB-; Stable
Non-fund-based - ST-ILC/FLC	-	-	-	2.00	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 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-Term Loan	LT	3.56	CARE BBB-; Stable	-	1)CARE BBB-; Stable (17-Sep-19) 2)CARE BBB-; Stable (05-Sep-19)	1)CARE BBB-; Stable (17-Sep-18)	1)CARE BBB-; Stable (02-Feb-18)
2.	Fund-based - LT-Cash Credit	LT	27.25	CARE BBB-; Stable	-	1)CARE BBB-; Stable (17-Sep-19) 2)CARE BBB-; Stable (05-Sep-19)	1)CARE BBB-; Stable (17-Sep-18)	1)CARE BBB-; Stable (02-Feb-18)
3.	Non-fund-based - ST-ILC/FLC	ST	2.00	CARE A3	-	1)CARE A3 (17-Sep-19) 2)CARE A3 (05-Sep-19)	1)CARE A3 (17-Sep-18)	1)CARE A3 (02-Feb-18)

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.	Non-fund-based - ST-ILC/FLC	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..

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