Polygenta Technologies Limited

April 03, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Proposed Long Term Bank Facilities	6.06	**CARE B (Single B) (Credit Watch With Developing Implications)**	**Continues on credit watch with developing implications**
Total	**6.06 (Rs. Six crore Six lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Polygenta Technologies Limited (PTL) is continues to remain on credit watch with developing implications. In its last rating action, CARE has placed ratings of PTL under credit watch with developing implication owing to temporary closure of plant operations from September, 2019 to mid-October, 2019. As per the exchange filling, PTL's new capacity and whole plant became operation in November, 2019. However, following COVID-19 breakout and government's directive to suspend business operations, PTL has informed, via exchange filling, that company has closed its plant operations from March 24, 2020 to April 14, 2020. CARE is in process of understanding the implication of this plant shutdown on the company's credit profile. CARE will remove the ratings from watch, and would take a final view on the ratings once clarity emerges on these issues. Further, CARE has noted that PTL's fund based facility with RBL Bank is closed and there is no outstanding against said facility.

The ratings assigned to the proposed bank facilities of Polygenta Technologies Limited (PTL) continues to factor weak financial profile with weak debt coverage indicators, concentration in customers and supplier base, and competition from substitutes. The ratings however, positively factors in financial support from the holding company and improvement in operational performance for 9M-FY20 and mitigation of project risk as PTL has started operations for FDY segment.

Rating Sensitivity:

Positive Factors:

- Turnaround in operations with the company reporting profits at PBILDT and PAT level on sustained basis.
- Improvement in capital structure with positive net worth.

Negative Factors:

- Delay in support from parent company for interest waiver on ECB.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile

PTL's financial profile continues to be weak due to accumulated losses and negative net worth. The company continues to post losses at PAT level till FY19. However, with better sales realization in premium segment, losses are decreasing year on year. In 9MFY20 results, PTL has posted PBILDT of Rs. 5.06 crores and GCA of Rs.4.59 crore. Consequently, interest coverage improved to 5.54x in 9MFY20 against -4.36x in 9MFY19. Owing to accumulated losses and negative net worth, PTL's capital structure continues to remain weak.

Availability of substitute product

The quality of the polyester products produced by alternate method of using virgin petrochemical feed-stocks derived from crude oil is relatively better than those produced by recycled PET bottles. Since the price of crude oil remains at moderate levels $65/barrel (for FY19), the low price advantage available to recycled polyester yarn industry are being set off. PTL's offering as socio—economic benefit for customers by recycling PET bottles using unique manufacturing process and delivering better quality products. PTL's primary segment being premium sales (contributing 61% of total sales in FY19), PTL's average per unit sales prices is higher than that of polyester products derived from petrochemical feed-stock.

High Customer and supplier concentration

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

The aggregate sales generated from top 7 customers amounting to Rs. 58.48 crore, which is 64% of total sales for FY19 signifying high revenue concentration risk. Similarly, aggregate purchase from top 6 suppliers amounted to Rs. 58.21 crore, which is 78% of its total purchases for FY19. PTL remains vulnerable to customer and supplier risk given the high dependence on few players for sales and purchases. However, with long standing relationship with its customers and suppliers, PTL's high concentration risk is partially mitigated.

Key Rating Strengths
Experienced promoters
In 2008, Aloe Environment Fund II (AEF) and Green Investment Asia Sustainability Fund I (GIASF) (both managed by the Aloe Group which manages a number of environment funds to invest in companies that seek to make a positive contribution to society) committed investment in Polygenta technologies limited(PTL) by forming PerPETual Global Technologies (PGTL) in Mauritius. The Aloe group has proven track record in environmental sector and is a pioneer in social and environmental corporate responsibility.

Regular Infusion of funds from holding company
The promoters have regularly infused funds to support the company's operations. During FY19, the holding company has infused ECB of Rs. 10 crore to fund capex and losses of PTL. However, no funds has been infused by the parent company after December, 2018. In January, 2020, PGTL has agreed to waive off the interest changes on sanctioned ECBs of USD 20 million and EUR 4.5 million from September, 2016 to March 31, 2020.

Improvement in operational performance in 9M-FY20
PTL has successfully revamped its operations backed by strong orders from branded customers (Premium sales). PTL's operating income grew with CAGR of ~20% for period of FY16 to FY19. PTL has reported 37% increase in volume sales of DTY/POY/Chips while 50% increase in value sales on y-o-y basis. Further, PTL's 9M-FY20 turnover stood at Rs. 83.02 crore as against Rs. 66.31 crore for 9M-FY19, registering growth of 23.71% YoY. With better operating efficiency, PTL is consistently improving its PBILDT margin, and turned PBILDT positive for 9MFY20. PTL's PBILDT margin stood at 6.83% for 9M-FY20 as against -8.75% for 9M-FY19. Further, PTL's cash flow from operation turned positive in FY19. Since FY16, PTL has focused on high margin premium segment which has grew from 10% to 61% of total volume sale. Also, realisation improved from Rs. 125/kg in FY15 to Rs. 141/kg in FY19.

Project Risk mitigated; production started for new capacity
For pursuing high margin yarn to offer in premium market, the company has forayed into manufacturing of fully drawn yarn (FDY). The company has set up new winders for making FDY for which Rs. 7.5 crore is financed by ECB from the parent company while balance was utilized from internal accruals of PTL. Project risk is mitigated as the new capacity for FDY already started its commercial operations in November, 2019. For FDY segment, PTL expects order book of 4200 MT during FY20-21.

Liquidity: Stretched
PTL has modest cash and bank balance of Rs. 0.26 crore and current ratio at 1.36x as on March 31, 2019. Average maximum working capital utilization stood at 95% while average monthly utilization stood at 68% for 12-month period ending in December, 2019, providing little headroom for liquidity. However, PTL has surrendered its outstanding bank limits. PTL does not have any significant repayments as well as major capex plans in next two year.

Analytical approach: Standalone

Applicable Criteria
Financials Ratio-Non Financial Sector
Policy in respect of Non-cooperation by issuer
CARE's policy on Default recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology – Manmade yarn manufacturing

About the Company
Incorporated in 1981, Polygenta Technologies Limited is engaged in the business of manufacturing sustainable polyester filament yarn (SPFY) by recycling post-consumer polyethylene terephthalate (PET) flakes using recycling technology, which is the ReNEW process. The Company is principally engaged in the manufacturing of synthetic or artificial yarns, tenacity yarns whether or not texturized, including high tenacity yarn. The Company sells its polyester yarn products for various applications in the fields of apparel, denim, home furnishings, floor coverings and industrial applications. The Company has a plant near Nashik. The Company's plant is integrated from feedstock, which uses PET bottles through to the manufacturing of SPFY and is

operating at 20 to 22 tons per day capacity depending upon the product-mix. The Company's operating capacity of the plant processes is 1.5 million plastic bottles a day

(In Rs. Crore)

Brief Financials (Rs. Crore)	FY18 (A)	FY19(A)
Total operating income	61.02	95.43
PBILDT	-23.27	-5.89
PAT	-55.03	-24.05
Overall gearing (times)	NM*	
Interest coverage (times)		

**A: Audited, NM: Not Meaningful*

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	-	-	-	6.06	CARE B (Under Credit watch with Developing Implications)

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	6.06	CARE B (Under Credit watch with Developing Implications)	1)CARE B (Under Credit watch with Developing Implications) (24-Sep-19)	1)CARE B; Stable (01-Feb-19)	1)CARE B; Stable (23-Feb-18)	1)CARE C (22-Nov-16)

***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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