Polygenta Technologies Limited

September 24, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**6.06**	**CARE B (Under Credit Watch With Developing Implications)**	**Rating put under credit watch**
Total	**Rs.6.06 crore (Rs. Six crore six lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Polygenta Technologies Limited (PTL) have been placed under "Credit Watch with Developing Implications' owing to a temporary plant shutdown from September, 2019 to mid-October, 2019 2019 as notified in its exchange filling. CARE is in the 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.

The ratings assigned to the bank facilities of Polygenta Technologies Limited (PTL) continues to factor continuing operational losses on account of sub-optimality of operations, weak debt coverage indicators, stressed liquidity position and cash losses with complete erosion of net-worth. The ratings continue to factor in financial support from the holding company. The ability of PTL to turnaround the business operations, successfully execute and complete its ongoing project remains the key rating sensitivities.

Detailed description of the key rating drivers

Weak financial risk profile

The company continues to post operating losses because of sub-optimal capacity utilization of its manufacturing facilities. In FY19, PTL has incurred loss of Rs.24.05 crores compared to loss of Rs. 55.03 crores in FY18. Consequently, the interest coverage ratio continues to be negative and net-worth of the company has been eroded.

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 average closing price of crude oil remains at moderate levels $65/barrel (in FY19), the low price advantage available to recycled polyester yarn industry are being set off.

Stressed Liquidity Position

The company's liquidity position is poor as it is dependent on its parent PerPETual Global Technologies (PGTL) for funding the losses. The company's working capital utilization for last 12 months trailing March, 2019, continues to remain high, thereby further constraining company's liquidity position. The company's cash balance stood at Rs.0.15 crore as on March 31, 2019.

Project Risk

PTL started expanding its recycling capacity (backward integration) to 75 TPD [current 30 TPD] at a capital outlay of Rs.125 crore in order to increase the product offerings and optimize the cost structure of its integrated plant at Nashik. The company plans to set up new winders for making fully drawn yarn (FDY) at an estimated cost of Rs.20 crore which would be fully financed by ECB's from the parent company.

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.

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

Regular Infusion of funds from holding company
The promoters have regularly infused funds to support the company's operations. During FY18, the holding company has infused external commercial borrowing (ECB) to the tune of 10 million Euro. The parent group has also waived off the interest payments on sanctioned amount of USD 20 million and EUR 4.5 million from September 2016 to September 30, 2019.

Liquidity
PTL's liquidity profile continues to be poor as the company's working capital utilization for last 12 months trailing March, 2019, continues to remain high. PTL's operating cycle stood at 50 days with cash and bank balance of Rs.0.15 crore as on March 31, 2019.

Analytical approach: Standalone

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

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 an integrated plant near Nashik in the state of Maharashtra. The Company uses PET bottles as feedstock for manufacturing of SPFY. The plant's processing capacity is 1.5 million plastic bottles a day.

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
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; 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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