Polygenta Technologies Limited

November 19, 2020

Ratings[1]

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Long term Bank Facilities	6.06	**CARE BB-; Stable [Double B Minus, Outlook: Stable]**	Rating revised from **CARE B [Single B]** and removed from credit watch with developing implications; Outlook assigned 'Stable'
Total	**Rs. 6.06 (Rs. Six Crore and Six Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the rating of Polygenta Technologies Limited (PTL) from 'Credit Watch with developing implications' on account of emergence of clarity about impact of COVID-19 pandemic on company's business and financial risk profile. PTL has optimized its plant operations and has generated cash profits in FY20. The company is also generating cash profits on monthly basis post resuming operations from May, 2020 after the plant was shut for almost 52 days due to the COVID-19 pandemic. The revision in the rating assigned to proposed bank facilities of Polygenta Technologies Limited is on account of significant improvement in its operational performance over last 6 quarters.

The rating assigned to Polygenta Technologies Limited derives strength from experienced promoters in the area of environmental sustainability, regular support from parent company, significant improvement in operational performance and profitability. However, ratings are constrained by weak capital structure, customer and supplier concentration risk and upcoming capacity expansion project.

Rating Sensitivity:

Positive Factors:

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

Negative Factors:

- Delay in support from parent company.
- Delay or cost overrun in upcoming project.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management in the area of environmental sustainability

Post the investments by Perpetual Global Technologies Limited (PGTL) from 2008 to 2010, Polygenta plant was substantially reconditioned and modified, key equipment was salvaged and re-used, and an integrated state of the art plant was installed focusing on making PFY products by recycling post-consumer PET bottles based on the patented recycling technology owned by PGTL. Currently, the Nashik plant converts approximately 3 million plastic bottles a day into high-quality sustainable filament yarns and PET chips for the textile industry. Dr. Vivek Tandon, one of the founders of PGTL, is a PhD from University College, London, and a BSc in Physics from Imperial College has been involved in plastic recycling sector since 2004 and has successfully founded number of companies focused on environmental sustainability. The management team at PTL also have rich and diverse experience.

Regular support from Parent company

Given the stressed liquidity situation of PTL over past few years, PGTL has been providing regular financial support to PTL in the form of interest waivers on ECB and reschedulement of ECBs. PGTL has been supporting PTL to fund its losses till December, 2018 through infusion of ECB. After December, 2018, PTL has been generating positive cash profits and support itself. PGTL has extended interest waiver in ECBs till March 31, 2021 and repayments of the ECBs are expected to start from March 31, 2022.

Significant improvement in operational performance

PTL has successfully revamped its operations backed by strong orders from branded customers (Premium sales). PTL's select customer base include brands such as Adidas, Decathlon, Puma, H&M, Zara, TNF, C&A, Target etc. PTL's operating income grew

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

with CAGR of ~20% for period of FY16 to FY20. PTL has reported 11% increase in volume sales of DTY/POY/Chips while 24% increase in value sales on y-o-y basis for FY20. With the improved product performance, PTL's sales in the branded segments has improved over the years. With better operating efficiency, PTL is consistently improving its PBILDT margin, and turned PBILDT positive for FY20. Further, PTL's net cash flow from operation turned positive in FY20. Further, for H1FY21, the company has registered sales of close to Rs. 50 crore with PBILDT of Rs. 6.63 crore. Owing to process optimization and focus on high margin yarns, PTL was able to generate positive PAT profit of Rs. 2.48 crore in Q2FY21.

PTL's improvement in operational performance is supported by volume growth as well as value growth. Since FY16, PTL has focused on high margin premium segment which has grew from 10% to 77% of total volume sale. Also, realisation improved from Rs. 125/kg in FY15 to Rs. 142/kg in FY20.

PTL has successfully improved plant operations by debottlenecking the process as well as reducing overheads. Due to various cost reduction and process improvement initiatives, PTL's manufacturing expenses reduced from 39% of total expenses in FY16 to 17% of total expenses in FY20. In FY20, PTL has started exporting recycled PET chips to US market based on strong demand for sustainable yarn. Further, FDY plant was fully commissioned in November, 2019. Fully Drawn Yarn is a speciality yarn which yields better margin.

Key Rating Weaknesses

Weak capital structure; albeit improvement in debt coverage indicators in FY20

PTL's capital structure continues to be weak due to accumulated losses and negative net worth over last several years. The company continued to post losses at PAT level till FY20. However, with better sales realization in premium segment and improvement in operating efficiency, losses are decreasing year on year. As a result, PTL was able to generate GCA of Rs. 11.31 crore for FY20 as against GCA of Rs. (7.29) crore for FY19. Consequently, interest coverage improved to 8.66x for FY20 against -3.59x in FY19 and total debt to cash flow from operations improved to 43x in FY as against 208x in FY19, while other debt coverage matrices remains poor due to PTL's negative net worth. PTL's interest coverage further improved to 13.27x in H1FY21 as against 8.04x in H1FY20. For H1FY21, the company has generated GCA of Rs. 6.21 crore.

Customer and supplier concentration risk; albeit reputed client base

PTL remains vulnerable to customer and supplier risk given the dependence on few players for sales and purchases. The aggregate sales generated from top 3 customers amounted to 40% of total sales for FY20 signifying revenue concentration risk. However, over the past few years the company has been expanding its customer base and presently its select customers include global brands like Decathlon, Adidas, Puma, Reebok, C&A, Target, etc. Further, the risk is partially mitigated as the company has long standing relationship with these customers. It is pertinent to note that the demand for the Company's products i.e. recycled PET chips and yarns is huge owing to the increased focus of more and more brands towards environmental sustainability, which is USP of PTL. However, given the present (plant) capacity limitation the company had to turn down orders from customer. In order to meet this demand and to further improve the profitability the company has planned for capacity expansion. Focused and continued business from reputed customers gives comfort on the quality adherence of PTL and also on the ability to execute orders. Similarly, aggregate purchase from top 3 suppliers amounted to 85% of its total purchases for FY20. As per the management, as the present operating capacity is relatively small, it has preferred working with only limited number of suppliers. Further, PTL has worked and assisted DPIPL (i.e. supplier of PET flakes which is the key feedstock) in his manufacturing operations and making PET flakes are per PTL's desired specifications. PTL has already shortlisted various other PET flakes suppliers based on quality parameters and may source the feedstock if and when desired.

Upcoming project for capacity expansion

PTL is considering expansion of its current capacity of 35 TPD to 135 TPD as the demand for sustainable yarns is significantly higher than the supply. The Project will focus on making 100% recycled textile grade rPET chips and thus consists of setting up a recycling unit based on the Group's patented recycling technology and a polymerisation plant with the capacity of 100 TPD. The cost of the project is estimated to be in the range of USD 22 to 25 million and implementation time frame is expected to be about 18 months from the date funds are available. The projected will be funded through a mix of debt and equity in ratio of 3:2. PTL is in the process of raising funds for the project. For the purpose of expansion, PTL has identified adjacent land of 10 acre near its current plant and planning to take it on lease with "first right to buy". Any delay in project leading to cost overrun may have an adverse impact on the liquidity of the company.

Liquidity: Adequate

PTL's liquidity profile remains adequate with unencumbered cash balance of Rs. 4.27 crore as on September 30, 2020. The company also has a satisfactory current ratio at 2.72x as on March 31, 2020. PTL does not have any cash credit facility. Since turning positive cash profit in Q1FY20, PTL is being able to support its operations on its own, without taking any financial support from PGTL. Further, the company is undertaking a capacity expansion project of US$ 25 million with debt to equity ratio of 3:2. Considering above, PTL's liquidity profile is adequate to meet any incremental working capital requirement in near term.

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 patented recycling technology owned by the Parent Group of PTL. 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 about 34 tons per day capacity depending upon the product-mix. The Company's operating capacity of the plant is processing 3 million plastic bottles a day.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	95.43	117.21
PBILDT	-5.88	12.12
PAT	-24.04	-4.64
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	8.66

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 BB-; 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 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-Cash Credit	LT	6.06	CARE BB-; Stable	1)CARE B (Under Credit watch with Developing Implications) (03-Apr-20)	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)

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

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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