Polyspin Exports Limited

August 05, 2020

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	20.73 (reduced from 23.97)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	61.00	**CARE A3 (A Three)**	**Reaffirmed**
Total	**81.73 (Rs. Eighty one crore and seventy three lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Polyspin Exports Limited (PEL) continue to derive strength from vast experience of the promoters and operational track record of PEL for more than two decades in the polypropylene segment and locational advantage of the unit. The ratings also factor in the improvement in gearing levels, debt protection metrics and comfortable liquidity position.

The ratings, however, continue to be constrained by its modest scale of operations, susceptibility of profits to volatile raw material prices and the presence of the company in the intensely competitive packaging industry coupled with impact of covid-19 pandemic.

Rating Sensitivities

Positive Factors

- Consistent growth in scale of operations above the range of Rs.300 crore
- Stabilize profitability levels at PBILDT range of 9%-10%
- Consistent improvement in gearing levels below 0.80-1.00x

Negative Factors

- Any debt-funded capital expenditure deteriorating the capital structure leading to gearing levels < 2x
- Continued pandemic of covid-19 resulting in deterioration of order book

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters and operational track record of more than three decades

PEL is into the field of poly propylene product business since 1985. The promoters were initially into manufacturing of HDPE/PP bags and thereafter started production of FIBC bags. As a diversification process, textile unit was started by the promoters. Due to its long operational track record of more than two decades in the packaging industry, the company has forged good relationships with its customers and suppliers.

Locational advantage of the unit out of its proximity to Tuticorin Port

PEL's FIBC unit is 100% export-oriented and imports a considerable part of its raw materials from foreign countries. Tuticorin port is located within 130 kms from the unit, making it cheaper for transportation of goods and the lead time for transportation is also less due to its location.

Moderate gearing however improved in FY20.

PEL's overall financial risk profile is moderate comprising borrowing in the form of term loan and working capital. The overall gearing as on March 31, 2020 stood at 1.62x compared with 1.86x as on March 31, 2019 and has been improving consistently year on year with retention of profits. However, regular modernization and backward integration measures necessitates the company to avail term loans at regular intervals. The debt coverage indicators stood moderate with Total debt to GCA at 6.57 years on March 31, 2020 and interest coverage ratio at 2.61 for FY20.

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

Key Rating Weaknesses

Modest scale of operations marked by fall in TOI and realisations in FY20

The company's revenue registered a decline of 21% in FY20(refers to the period April 1 to March 31) at Rs. 169 Crores in FY20 as against Rs. 214 crore in FY19 due to lower demand from the US clients coupled with fall in end prices. The impact of the US China trade war has resulted in slowdown in the US business leading to holding back of orders and decline in order by more than 10%. Furthermore, the final product price of PEL which is fixed on the basis of the international raw material prices of PP granules had also come down by more than 10% in FY20.

Raw material price dependent on crude oil price which is volatile

PEL's major raw material is Poly Propylene granule which is derived from crude oil. Price of PP granule is volatile in nature, since it is dependent on the movement of crude oil prices. The PBILDT margins of the company witnessed a decline from 9.39% during FY19 to 8.07% during FY20 due to drop in revenue and realisations. However, the PAT margin stood more or less stable at 3.09% in FY20 (PY: 3.40%) with the company receiving insurance claim of Rs. 2.50 crores in FY20 pertaining to the fire accident in June 2018.

Impact of covid-19 and Industry prospects

With the onset of covid-19 pandemic and ensuing lockdown, PEL's unit was shut since March 23, 2020, but subsequently opened with 50% local workforce from April 16 2020 and has been operating continuously since then with an average production capacity of around 80-85% from June, 2020. Furthermore, due to the US- China relationship breakdown, the Chinese orders have been reportedly diverted to PEL which has improved the order book in the current year.

With the outbreak of COVID 19, the packaging manufacturers are facing supply chain disruption along with decreasing manufacturing at the site in many parts of the world. To ensure the smooth flow of supply chain, Global Food Safety Initiative (GFSI) certification programs are providing six-month certificate extensions by conducting a remote audit and risk assessment pertaining to COVID-19 such that the company can approve a new supplier location without an on-site audit to meet the demand.Packaging companies that serve these more resilient sectors are likely to do well in the current environment, with stockpiling, changing demand patterns and government measures likely to lead to an increased demand for certain products.

Liquidity: Adequate

The liquidity profile of the company is marked by sufficient cushion in accruals to meet the repayment obligations of Rs.3.37 crore for FY21 supported by cash and bank balance of Rs. 5.46 Crore as on March 31, 2020. The operating cycle of the company stood moderate at 81 days during FY20 with an inventory period of 61 days. The average fund-based working capital utilization stood high at 53% for the past 12 months ended July 2020.PEL had availed moratorium for its term loan principal from March 2020 to May 2020. PEL has availed ad-hoc short-term loan of Rs. 2 crores in April 2020 to fund the raw material requirement and manage liquidity.

Analytical approach: Standalone

Applicable Criteria

CARE's methodology for manufacturing companies
Criteria on assigning Outlook and Credit watch to Credit Rating
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology for Cotton Yarn Industry
Liquidity Analysis of Non-Financial Sector Entities

About the Company

PEL is a 100% EOU promoted in 1985 as limited company by Mr R Ramji (MD). PEL was initially into manufacturing of HDPE/PP bags and has started full-fledged production of Flexible intermediate bulk container (FIBC) bags from 1996. Over the years, PEL has developed an integrated manufacturing facility for FIBC with periodical up-gradation and innovation and has total capacity of 11000 MT as on March 31, 2020. Along with the FIBC division, PEL also has capacity to produce 300 MT PP woven fabric, 1500 PP yarn and textile division with 2400 rotors manufacturing cotton yarn as on March 31, 2020. PEL has a windmill with 250 KVA capacity for its captive consumption purposes. PEL's products are primarily used in fertilizer, building material, chemical and cement industry. The day-to-day management of the company is done by Mr R Ramji (MD) & Mr Ponram Barathy (ED) along with well qualified professionals.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	214.88	169.73
PBILDT	20.18	13.70
PAT	7.30	5.25
Overall gearing	1.86	1.62
Interest coverage (times)	3.59	2.61

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	-	-	July 2024	15.43	CARE BBB-; Stable
Fund-based - ST-Foreign Demand Bills Payable	-	-	-	25.00	CARE A3
Fund-based - LT-Cash Credit	-	-	-	5.30	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	22.00	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	14.00	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	15.43	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Jul-19)	1)CARE BB+; Stable (26-Jul-18)	1)CARE BB+; Stable (04-Jul-17)
2.	Fund-based - ST-Foreign Demand Bills Payable	ST	25.00	CARE A3	-	1)CARE A3 (03-Jul-19)	1)CARE A4+ (26-Jul-18)	1)CARE A4+ (04-Jul-17)
3.	Fund-based - LT-Cash Credit	LT	5.30	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Jul-19)	1)CARE BB+; Stable (26-Jul-18)	1)CARE BB+; Stable (04-Jul-17)
4.	Fund-based - ST-EPC/PSC	ST	22.00	CARE A3	-	1)CARE A3 (03-Jul-19)	1)CARE A4+ (26-Jul-18)	1)CARE A4+ (04-Jul-17)
5.	Non-fund-based - ST-BG/LC	ST	14.00	CARE A3	-	1)CARE A3 (03-Jul-19)	1)CARE A4+ (26-Jul-18)	1)CARE A4+ (04-Jul-17)

Annexure 3: Detailed Explanation of covenants of the rated instruments/facilities: N.A

Annexure 4: 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.	Fund-based - ST-EPC/PSC	Simple
4.	Fund-based - ST-Foreign Demand Bills Payable	Simple
5.	Non-fund-based - ST-BG/LC	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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