Precision Plastic Industries Private Limited

December 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	62.84 (reduced from 95.01)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	**Rating Reaffirmed; Outlook revised from Stable to Negative**
Short term Bank Facilities	12.00	CARE A3 (A Three)	**Reaffirmed**
Total Facilities	**74.84 (Rs. Seventy four crore and eighty four lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Precision Plastic Industries Private Limited (PPIPL) continues to derive strength from vast experience of its promoters in the pipes and fittings industry, established position of the PPIPL in electrical conduit pipes with large distribution network and pan India presence. The rating also factors in time based financial support extended by promoters in terms of equity infusion and unsecured loans. Equity infusion from promoters during FY19 has helped the leverage indicators to certain extent.

The above mentioned rating strengths, however, are tempered by significant dependence on real estate segment for its sales, modest scale operations, susceptibility of profit margins to fluctuations in PVC (Poly vinyl chloride) resin prices on back of its limited ability to pass on the price rise owing to stiff competition. The rating also factors in the modest debt coverage indicators with declining trend witnessed in its PBILDT margin during last three years. PPIPL reported decline in Total Operating Income reported by PPIPL during H1FY20 on back of weak real estate scenario.

Rating Sensitivities

Positive Factors

- Increase in PBILDT margin above 12% on sustained basis
- Overall gearing below 1x on sustained basis

Negative Factors

- Decline in PBILDT margin below 8% on sustained basis
- Decline in PBILDT / Interest coverage below 2.43x on sustained basis

Outlook: Revised from 'Stable' to 'Negative'

The revision in outlook factors in the CARE's belief that the full year performance for FY20 would be relatively weaker as compared to FY19 on back of muted demand for the products from Real Estate segment. CARE also believes, that PPIPL would continue to face the margin pressure owing to elevated competitive intensity in the segment.

CARE would revise the outlook to stable in case PPIPL reports better than envisaged performance in term of operating profit margin translating into improved cash accrual and debt coverage indicators for FY20.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in PVC pipes and fittings industry

PPIPL was promoted by Late Mr. Sunil Kadakia a first generation entrepreneur having almost 3 decades of experience in PVC pipe industry. Currently the company is headed by Mr. Kunal Kadakia (son of Late Mr. Sunil Kadakia) having experience of more than a decade in the industry. Mr. Kadakia is assisted by a group of qualified professionals for his day to day operations.

Recognized brand in the electrical pipes and fittings segment with established distribution network

With presence of more than two decades in the industry, the company has been able to create niche for Precision brand in the electrical pipes and fitting segment. PPIPL has 175 distributors spread across the country with majority in western India. PPIPL's presence is more concentrated towards western region as it derived around 65% of its total revenue from this region in FY19**.**

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

Key Rating Weaknesses

Modest scale of operations with healthy growth reported in FY19; albeit H1FY20 remained muted on back of weak real estate demand

PPIPL with a Total Operating Income (TOI) of Rs. 247.98 crore in FY19 and tangible networth of Rs.56.04 crore as on March 31, 2019 is considered to be mid-sized entity. In FY19, PPIPL's TOI grew by 19% on account of increase in sales volume as well as realization across the segments. PPIPL derives around 70% of its revenue from PVC conduit pipes and fittings. PVC conduit pipes and fittings are used mainly in electrical wirings and hence its demand is largely linked to growth in real estate segment. Subdued real estate market with decline in new project launches resulted in muted domestic demand of conduit pipes in H1FY20 leading to decline in PPIPL's TOI by 11% on YoY basis.

Susceptibility of its operating profit to volatility in key raw materials prices and limited ability to pass on the price rise owing to stiff competition

PPIPL's major raw material is PVC resin, which forms over 80% of total raw materials consumed in the production. Besides, other chemicals consumed during manufacturing are also crude oil derivatives. Hence, exposing PPIPL's profitability margins to volatility in raw material prices. However, PPIPL is unable to pass on the increase in input cost due to stiff competition in the industry. In FY19, PPIPL's PBILDT margin has dropped by 188 bps primarily due to increased prices of PVC resin as well as other additives in accordance with crude oil prices during the period of January 2018 to March 2019. In H1FY20 also PBILDT margin remained stagnant on YOY basis. The ability of the company to improve its PBILDT margins going forward would remain a key monitorable from the credit perspective.

Moderate leverage and debt coverage indicators

PPIPL's overall gearing has improved to 1.42x as on March 31, 2019 as against 1.74x as on March 31, 2018, led by repayment of long term loan coupled with increased tangible net worth led by equity infusion of Rs.2 crore and accretion of profits. Further, the overall gearing as on September 30, 2019 has improved to 1.33x; however, the same continues to remain at moderate level. PPIPL's interest coverage improved to 2.43x in FY19 (PY: 2.23x) led by lower interest expense as a result of term loan repayment. Further, TDGCA (Total Debt to Gross Cash Accruals) also improved to 5.96x as on March 31, 2019 as compared to 6.5x as on Mach 31, 2018.

Liquidity: Stretched

In FY19, PPIPL's liquidity remained stretched on account of tightly matched gross cash accruals during the year against high cash outflows pertaining to debt repayments and maintenance capex incurred during the year. PPIPL's average monthly fund based utilization remained high at 91% for past 12 months ended October 2019. However, comfort can be drawn from past demonstrated track record of financial support by promoters in terms of equity infusion and unsecured loan provided to the company. PPIPL's operating cycle has also improved in FY19 to 46 days from 60 days in FY18 on account of efficient working capital management.

Analytical approach: Standalone

Applicable Criteria

Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing companies
Criteria for Short Term Instruments

About the Company

Established in 1995, Precision Plastic Industries Pvt Ltd (formerly known as Precision UPVC Moulders Pvt Ltd) (PPIPL) is engaged in the business of manufacturing Polyvinyl Chloride (PVC) conduit pipes & fittings, CPVC (Chlorinated polyvinyl chloride) pipes & fittings, irrigation pipes & agriculture fittings, sewerage waste and rainwater pipes & fittings, corrugated pipes, panel trunkings and fabricated fittings. The company has its manufacturing facility in Haridwar (Uttarakhand), Noida, Daman, Talasari (Maharashtra) and Bangalore with combined capacity of 38,250 MTPA. The pipes manufactured by the company find application in irrigation, agriculture, potable water supply schemes, sewerage and drainage systems, construction industry, telecom industry and bore/tube well for underground water suction. Precision products are available across India through its network of distributors.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	H1FY20 (UA)
Total operating income	207.99	247.98	111.54
PBILDT	24.17	24.15	11.13
PAT	1.87	2.58	1.16
Overall gearing (times)	1.74	1.42	1.33
Interest coverage (times)	1.29	1.39	1.38

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA:
CRISIL had suspended ratings for PPIPL on account of non-cooperation by the company on November 26, 2013

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	-	-	-	27.84	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	12.00	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 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-Term Loan	LT	27.84	CARE BBB-; Negative	-	1)CARE BBB-; Stable (27-Jul-18)	1)CARE BBB; Stable (24-Nov-17)	1)CARE BBB+ (12-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (27-Jul-18)	1)CARE BBB; Stable (24-Nov-17)	1)CARE BBB+ (12-Sep-16)
3.	Non-fund-based - ST-BG/LC	ST	12.00	CARE A3	-	1)CARE A3 (27-Jul-18)	1)CARE A3 (24-Nov-17)	1)CARE A3+ (12-Sep-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

<table>
<tr><th>Mandatory Covenants</th><th>Detailed explanation</th></tr>
<tr><td>I Bank reserves the right to reset the interest on term loans</td><td></td></tr>
<tr><td>Ii Additional project cost would be borne by the company</td><td>Further, if there is decrease in the project cost the term loan amount shall be proportionately reduced.</td></tr>
<tr><td>Iii (Only for Term Loans) Penal interest will be charged in case of breach of any two of the four parameters vis-à-vis values as approved by sanctioned authority.</td><td>Parameters are tested on annual basis on the basis of audited balance sheet
<table>
<tr><td>Parameters</td><td>Benchmark</td><td>Penalty for adverse deviation</td></tr>
<tr><td>GDSCR</td><td>1.24</td><td rowspan="4">i. Upto 5% - NIL
ii. >5% & upto 10% - 25 bps p.a
iii. >10% - 50 bps p.a.</td></tr>
<tr><td>Interest coverage ratio</td><td>2.56</td></tr>
<tr><td>FACR</td><td>2.83</td></tr>
<tr><td>Debt/EBITDA</td><td>1.93</td></tr>
</table></td></tr>
<tr><td>Iiii Penal interest on following events at rates circulated from time to time</td><td>a. For the period of overdue interest/installment in respect of term loans and overdrawings above Drawing Power/limit in Fund based working capital accounts.
b. Non-submission of stock statements within 20 days of succeeding month
c. Non-submission of audited balance sheet 6 months of closure of financial year
d. Non-submission or delayed submission of FFRs, wherever stipulated, within due date
e. Non-submission of review/renewal data at least one month prior to due date
f. Non-renewal of insurance policy in a timely manner or inadequate insurance cover</td></tr>
<tr><td>Iiv In the event of default, or where signs of inherent weakness are apparent, the bank shall have the right to securitize the assets charged.</td><td></td></tr>
<tr><th>Term Loan</th><th>Detailed Explanation</th></tr>
<tr><td>1. Adverse deviation by more than 20% from the levels stipulated in respect of any two of following parameters will attract re-pricing of the loan</td><td>▪ Current ratio of 1.08
▪ Total Debt Gearing i.e. Total outside liabilities to adjusted tangible net worth (TOL/Adj.TNW) of 2.47
▪ Interest coverage ratio: 2.56
▪ Return of capital employed: 13.92%
▪ GDSCR: 1.24
▪ FACR: 2.83</td></tr>
</table>

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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