February 12, 2020

Sudhakar Plastic Pvt. Ltd.: Ratings of [ICRA]BBB(Stable)/[ICRA]A3+ assigned

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based/CC	8.00	[ICRA]BBB (Stable); assigned
Long Term - Fund based/Term loan	2.62	[ICRA]BBB (Stable); assigned
Short Term – Non Fund based	15.50	[ICRA]A3+; assigned
Long Term - Unallocated	1.58	[ICRA]BBB (Stable); assigned
Total	**27.70**	

Rationale

The assigned ratings favorably factor in Sudhakar Plastic Pvt. Ltd's (SPPL) established track record in Poly Vinyl Chloride (PVC) and High Density Poly Ethylene (HDPE) pipes manufacturing; and SPPL being part of Sudhakar Group which has a strong dealership network in Telangana and Andhra Pradesh. The ratings also consider comfortable capital structure with gearing and TOL/TNW at 0.7 times as on December 31, 2019 with majority of debt comprising unsecured loans from promoters and adequate liquidity position as reflected in low utilisation of working capital limits over the past fifteen months and need-based availability of promoter funding.

The ratings are, however, constrained by small scale of operations with revenues of Rs 79.5 crore in 9mFY2020 which declined over the years from Rs 201.1 crore in FY2017 owing to decrease in government orders for HDPE pipes and high geographic concentration with majority of revenues contributed by the states of Andhra Pradesh and Telangana. The ratings are also constrained by volatility in profitability margins which ranged between 8-16% over the years owing to adverse price fluctuations in raw materials such as HDPE granules and PVC resin along with fixed price contracts for government orders. Also, the decline in profitability margins to 4.7% during 9M FY2020 resulted in a weakened financial risk profile as reflected by interest coverage of 1.4 times and Total Debt/OPBITDA of 5.7 times during 9M FY2020. However, the expected improvement in company's profitability margins is likely to result in improved coverage indicators and the extent of improvement in margins being key rating monitorable in the near term. Further, the company has a high working capital intensity with NWC/OI of 41% in 9M FY2020 driven by high debtor levels owing to delays in payments for government projects.

The Stable outlook reflects ICRA's opinion that SPPL will continue to benefit from the group's established brand position and strong dealership network.

Key rating drivers and their description

Credit strengths

Established track record and market position of Sudhakar Group - SPPL is into manufacturing of PVC and HDPE pipes and has executed various government projects over the years. PVC pipes accounted for 67% of revenues in 9M FY2020 followed by HDPE pipes contributing to 22% of revenues with the remaining from other drip irrigation products. SPPL is a part of the Sudhakar group which has been manufacturing polymer products for over four decades through various group companies under the 'Sudhakar' brand. The group has an established market position with a strong dealership network of more than 3000 dealers and a total of five manufacturing facilities. The products manufactured by the group include PVC/HDPE pipes and fittings, rotomolded tanks, garden pipes, wires, cables, uPVC windows and doors etc.

Comfortable capital structure - The company's capital structure is comfortable with gearing and TOL/TNW at 0.7 times as on December 31, 2019 owing to low debt levels. Further, majority of SPPL's debt comprises unsecured loans from promoters which were extended to support its operations over the years while the net worth is moderate at Rs 43.0 crore as on December 31, 2019. The total debt is Rs. 28.02 crore as on December 31, 2019 and comprises term loans of Rs. 3.0 crore, working capital borrowings of 2.7 crore and Rs. 22.5 crore interest bearing unsecured loans.

Adequate liquidity position – The liquidity position is adequate as reflected by low average working capital limit utilisation at ~39% over the past fifteen months ending December 2019 and unencumbered cash balances of Rs. 7.4 crore as on December 31, 2019. Further, its operations have been supported by need-based promoter funds over the years with minimal reliance on external debt.

Credit challenges

Small scale of operations - SPPL scale of operations is small with revenues of Rs. 175.5 crore in FY2019. Moreover, the company's revenues declined to Rs. 79.5 crore in 9M FY2020 owing to decrease in government orders from Telangana and Andhra Pradesh. Revenues from HDPE pipes decreased to Rs. 17.1 crore in 9MFY2020 from Rs. 72.6 crore in FY2019 and Rs 104.93 crore in FY2018 leading to decline in revenues in the past two years. Although the revenue is expected to improve in the medium term with increased focus on PVC pipe sales from retail segment and orders from institutional customers, it continues to remain small.

Weakened financial risk profile in 9M FY2020 – The company's operating profitability declined to 4.7% in 9MFY2020 from 11.0% in FY2019 owing to reduced capacity utilisation and poor absorption of fixed costs given the decrease in government orders during the period for HDPE pipes. The interest coverage also declined to 1.4 times while TD/OPBITDA increased to 5.7 times during 9M FY2020. However, expected improvement in the profitability margins of the company to result in improved coverage indicators and the extent of margin improvement will be a key rating monitorable.

High geographic concentration – The company has a high geographic concentration with majority of revenues derived from the states of Andhra Pradesh and Telangana. However, this is mitigated by the established brand position of Sudhakar group resulting in repeat orders for the company.

High working capital intensity driven by high debtor levels - The working capital intensity of the company remained high at ~41% in 9M FY2020 on account of high debtor levels. The debtor days are high at 118 days owing to delays in receiving payments from the government departments of Andhra Pradesh and Telangana.

Profitability indicators exposed to volatility in raw material prices - The company's revenues and margins are exposed to price fluctuation of key raw materials such as PVC resin and HDPE/LDPE granules. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins, considering the limited value addition and high competitive intensity.

Liquidity Position: Adequate

Despite likely decrease in Fund flow from operations (FFO) in the near term, the company's liquidity position is adequate supported by undrawn working capital limits and need-based availability of promoter funds. Further, the average fund-based limit utilization is low at ~39% during the period between August 2018 and December 2019. Absence of any major capex plans in the medium term is expected to support the liquidity position of the company.

Rating sensitivities

Positive triggers: ICRA could upgrade SPPL's rating if there is significant improvement in company's scale of operations and profitability, along with improvement in geographic diversity. Besides strengthening of business profile, improvement in working capital intensity of the business, especially marked by reduction in debtor days would also support rating upgrade. Specific credit metrics that could lead to an upgrade of SPPL's rating include (1) Interest coverage greater than 3.5 times on a sustained basis.

Negative triggers: Negative pressure on SPPL's rating could arise if revenues and margins are lower-than-expected or if there is a deterioration in working capital cycle impacting the company's liquidity position. Specific credit metrics that could lead to a downgrade of SPPL's rating include (1) Total Debt/OPBITDA of greater than 3 times on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

SPPL was incorporated in 1992 and has been involved in manufacturing of Polyvinyl Chloride (PVC) pipes, High-density Polyethylene (HDPE)/ Low-density Polyethylene (LDPE) pipes and other drip irrigation products with a total installed capacity of 54604 MTPA. The company's manufacturing facility is located in Suryapet, Telangana and is part of the Sudhakar Group which has an established market position and track record in the polymer products industry. Sudhakar Group, founded in 1972, manufactures polymer products across three major verticals – pipes and fittings, wires and cables, windows and doors – through its various group companies.

Key financial indicators

	FY2018	FY2019	9M FY2020*
Operating Income (Rs. Crore)	187.8	175.5	79.5
PAT (Rs. Crore)	13.4	7.2	-1.2
OPBDIT/ OI (%)	16.1%	11.0%	4.7%
RoCE (%)	35.2%	18.6%	2.6%
Total Debt/ TNW (times)	1.0	0.8	0.7
Total Debt/ OPBDIT (times)	1.4	1.9	5.7
Interest Coverage (times)	5.4	3.8	1.4

**Provisional financials*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 12-Feb-2020	Date & Rating in FY2019 -	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Fund based/CC	Long Term	8.00	**NA**	[ICRA]BBB (Stable)	-	-	-
2	Term Loan	Long Term	2.62	**2.62**	[ICRA]BBB (Stable)	**-**	**-**	**-**
3	Non fund based	Short Term	15.50	**NA**	[ICRA]A3+			
3	Unallocated Limits	Long Term	1.58	**NA**	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/CC	NA	NA	NA	8.00	[ICRA]BBB (Stable)
NA	Term Loan	2016		2023	2.62	[ICRA]BBB (Stable)
NA	Non fund based	NA	NA	NA	15.50	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	1.58	[ICRA]BBB (Stable)

Source: Sudhakar Plastic Pvt. Ltd.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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