

May 27, 2022

S.R. Polyvinyl Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund based – CC	3.00	3.00	[ICRA]BB (Stable); reaffirmed
ST- Non-fund Based – LC	17.00	17.00	[ICRA]A4; reaffirmed
Total	20.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in the extensive experience of the promoters of S.R. Polyvinyl Limited (SRPL) in the polymer and plastic trading business and their established relationships with customers and suppliers. Further, the ratings consider the healthy growth in SRPL's turnover in FY2022 after a decline in FY2021 and expectation of steady growth, going forward. The coverage metrics remain comfortable with the improvement in cash generation following the increase in SRPL's scale of operations and relatively low debt levels (especially external debt). ICRA also takes note of SRPL's low working capital intensity of operations.

However, the ratings are constrained by SRPL's moderate scale of operations, coupled with thin margins due to the trading nature of the business in a highly competitive and fragmented polymer and plastic trading industry, which had led to modest cash accrual generation in the past, translating into a relatively low net worth base. Moreover, the industry is competitive and has low entry barriers, which results in limited pricing flexibility. The ratings are also inhibited by the susceptibility of the profit margins to the volatility in commodity prices and fluctuations in foreign exchange.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that SRPL will continue to benefit from its established operational track record and the extensive experience of its promoters to generate steady growth in turnover.

Key rating drivers and their description

Credit strengths

Established track record of promoters – SRPL, incorporated in 2010, is headed by Mr. Rajendra Prasad Agarwal who has almost 45 years of experience in the polymer and plastic trading business. The entity's other promoters also have more than three decades of experience in the industry. This helps them secure new orders and reach out to new customers.

Established relationships with customers – The top-ten customers of the company contributed to 20% and 55% of the total sales and purchases, respectively, in FY2022, reflecting low customer concentration risk. The promoters' extensive experience and long track record has enabled them to build a strong relationship with the stakeholders and receive payments on time.

Low working capital intensity – SRPL's working capital intensity has historically remained low, in the range of 7-16% during FY2016-FY2021, owing to a balanced cash conversion cycle. This is expected to remain at around 13-15%, going forward.

Improved demand scenario post pandemic – The company's operating income declined to Rs. 194.10 crore in FY2021 from Rs. 262.50 crore in FY2020 owing to the pandemic and the related restrictions. However, the operating income improved to more than Rs. 300 crore in FY2022 due to an improved demand scenario post the pandemic and reduced restrictions across the world. This growth is likely to continue, going forward.

Credit challenges

Thin margins due to trading nature of business – In the trading business, the profit margins are thin, reflected in SRPL's operating profit margin of 3.57% and net profit margin of 2.54% in FY2021 even as both the parameters improved over an operating profit margin of 1.75% and net profit margin of 0.92% in FY2020.

Competition from smaller and unorganised players – The company faces stiff competition from other unorganised players in the industry. There are numerous entities in the polymer distribution business due to the low entry barriers, which intensifies competition and limits the company's pricing flexibility.

Margins susceptible to fluctuations in raw material prices and forex rates– SRPL, being a trading entity, is exposed to commodity price risk due to the inherent volatility in commodity prices linked to crude oil prices. The business is also exposed to risk of forex fluctuations as the company imports almost 65% of their products.

Liquidity position: Stretched

The liquidity position of SRPL is **stretched**, given the limited free cash balances and limited cushion in the working capital limits vis-à-vis the scale of operations.

Rating sensitivities

Positive factors – ICRA could upgrade SRPL's ratings if a sustained improvement in operating profitability, scale of operations and working capital cycle improves the company's liquidity and net worth.

Negative factors – ICRA could downgrade the ratings if a sustained decline in operating profitability or a stretch in the working capital cycle weakens the company's liquidity position.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

S.R. Polyvinyl Limited (SRPL) was incorporated on July 28, 2010 in Delhi. The company is involved in the trading, import and export of various commodity polymers like PVC resins, plasticisers, EVA resin, PVC paste resin, release paper and other allied products. SRPL has four rented warehouses in Delhi of 2,479 square yards in total with a capacity to store 3,350 tons of material. The company imports and domestically purchases the material traded, primarily for sale in the domestic market.

Key financial indicators (audited)

SRPL Standalone (Audited)	FY2021	FY2020
Operating Income (Rs. crore)	194.1	262.4
PAT (Rs. crore)	4.93	2.41
OPBDIT/OI (%)	3.57%	1.75%
PAT/OI (%)	2.54%	0.92%
Total Outside Liabilities/Tangible Net Worth (times)	1.22	1.86
Total Debt/OPBDIT (times)	1.72	2.39
Interest Coverage (times)	5.40	2.72

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 27, 2022	-	Feb 12, 2021	--
1	Cash Credit	Long-term	3.00	--	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	--
2	Non-fund based - LC	Short term	17.00	--	[ICRA]A4	-	[ICRA]A4	--

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based- Cash Credit	Simple
Non-fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Cash Credit	-	-	-	3.00	[ICRA]BB (Stable)
NA	Non-fund based – LC	-	-	-	17.00	[ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

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