February 26, 2024

P P Products Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	7.50	17.50	[ICRA]BBB(Stable); reaffirmed/assigned
Non-Fund-Based Facilities	89.72	129.72	[ICRA]A3+; reaffirmed/assigned
Short-term Unallocated Limits	3.78	0.00	-
Total	**101.00**	**147.22**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the operational and financial profiles of Tarajyot Polymers Limited (TPL) and PP Products Private Limited (PPPPL), given the common promoters, and operational and financial synergies between them.

The reaffirmed ratings consider the extensive experience of the Shyam Group in the polymer trading industry, with a strong presence in the southern markets, and the established relationship of the Group with customers and global suppliers. The ratings also factor in PPPPL's low working capital intensity. In FY2023, the consolidated revenue witnessed a healthy year-on-year (YoY) growth of 48% on account of an increase in volumes, however, the realisations had softened. Although the revenues moderated in the current fiscal, it remained healthy with consolidated revenue of ~Rs. 955 crore in 9M FY2024.

ICRA also notes the management's stated intent to infuse funds in the form of unsecured loans as and when required to meet the working capital requirements. The ratings also factor in the favourable, long-term demand prospects for importing polymers as domestic supply lags demand.

The ratings are, however, constrained by PPPPL's low profitability due to the trading nature of its business and the exposure of its margins to fluctuations in raw material prices, intense competition, volatility in foreign exchange (forex) rates and regulatory risks arising from import duties and anti-dumping duties (ADDs) on polymers.

The Stable outlook on the rating reflects ICRA's opinion that PPPPL will continue to benefit from the extensive experience of the Shyam Group of companies in polymer trading with an established relationship with customers and global suppliers.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter group in polymer trading industry - PPPPL, incorporated in 1990, is a part of the Shyam Group with over three decades of extensive experience in polymer trading. The Group has footprints in diverse businesses, such as polymer processing and non-banking financing activities. PPPPL also benefits from operational linkages and financial support in the form of unsecured loans from other Group entities.

Established relationship with customers and global suppliers - The Group enjoys established relationships with international suppliers such as Exxon Mobile, Saudi Basic Industries Corporation, Basell Asia Pacific Limited, Oman Polypropolyne LLC, Dow Chemicals Limited, etc. Its customers are mainly polymer traders and processors, with some of them providing repeat orders. The Group attracts customers by providing a favourable credit period of 60-90 days; while its imports are mainly LC-backed with a usance period of 90 to 150 days.

Low working capital intensity – PPPPL's working capital intensity has been low with NWC/OI of 1.1% in FY2023. The company imports its products on a 90-150 days usance basis, while it extends a maximum credit period of ~60-90 days to its customers. It procures products either backed by LC or on DA/DP basis and uses fund-based and non-fund based working capital facilities. However, the average utilisation of the fund-based limits has been low at 24% for the 15-month period ending Dec 2023, and for non-fund based limits, the utilisation has been at 84% for the same period. The margin money requirement for LCs is fixed at 15-20% for the sanctioned limit, and any additional borrowing above the limit will be covered with a 100% cash margin. While the gearing has been modest for the company, the TOL/TNW remained moderately high and stood at 2.9 times as on March 31, 2023. The adjusted[1] TOL/TNW is at 2.4 times as on March 31, 2023. The adjusted TOL/TNW is expected to be less than 2.0 times going forward.

Favourable long-term demand for polymers; import dependence likely to continue –The long-term domestic demand outlook remains favourable and is likely to be sustained by increased demand from end-user industries such as automobiles, FMCG, packaging and pharmaceuticals. While domestic supply has grown, leading to increased competitive pressure, it still lags behind the demand and the import dependence is expected to continue.

Credit challenges

Susceptible to volatility in crude prices, forex rates and changes in Government policies - PPPPL's revenue and margins are susceptible to fluctuations in polymer prices and exchange rates. However, the company hedges its receivables, and the hedging cost is captured in the final pricing, which partly mitigates the risk. Further, its performance is also susceptible to changes in Government policies, especially pertaining to the duty structure.

Limited pricing flexibility due to low entry barriers and intense competition - PPPPL faces intense competition from larger domestic manufacturers and organised/unorganised traders, with the industry characterised by low entry barriers, limiting the company's pricing flexibility.

Low profitability levels and moderate coverage indicators - Due to the low value-added nature of trading operations, the company's profitability was modest with its OPM and NPM in the range of 1-1.2% and 0.4-0.5%, respectively, in the last few years. The operating profits at an absolute level have remained similar in the past few years. For FY2023, the coverage indicators continued to be moderate, with interest cover of 1.6 times due to higher working capital loans, unsecured loans from promoters and an increase in interest rates, resulting in higher interest charges.

Liquidity position: Adequate

The liquidity is expected to remain adequate on the back of the availability of unutilised fund-based limits, minimal capex plans due to asset-light business model, no term loan debt obligations and healthy cash accruals. Further, the recent enhancement of the working capital limits and infusion of unsecured loans from promoters as and when required, would support the liquidity going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the companies exhibit sustained improvement in operating profitability, scale of operations and working capital cycle.

Negative factors – ICRA could downgrade the ratings if the companies demonstrate a sustained decline in operating profitability or stretch in the working capital cycle, weakening the liquidity position. Specific credit metrics for a downgrade include adjusted TOL/TNW to be higher than 2.0 times on a sustained basis.

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[1] *Adjusted for encumbered cash*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated view of PPPPL and group entity, Tarajyot Polymers Limited, given the common promoters, and operational and financial synergies between them.

About the company

PPPPL, incorporated in 1990, is a part of the Shyam Group of companies and operates from Bengaluru. It has three branches in Bengaluru, Tuticorin (Tamil Nadu) and Mumbai. PPPPL is involved in the import and domestic trading of various polymers, including poly vinyl chloride (PVC), low-density polyethylene (LDPE), high-density polyethylene (HDPE), linear low-density polyethylene (LLDPE) fillers, polyethylene terephthalate (PET), etc. It imports polymer granules from various global majors.

The Shyam Group has footprints in diverse businesses, such as polymer processing and trading, and non-banking financing activities—and traces its roots to the business set up in 1986 by Mr. Ram Awtar Ramsisaria in Kolkata. The Group shifted its operational base to Bengaluru in the 1980s and started trading in plastic granules through different entities. Since then, the Group has expanded its operations by several folds, and at present includes multiple trading, manufacturing and investment companies.

Key financial indicators (Audited)

Consolidated (TPL+PPPPL)	FY2022	FY2023	*H1FY2024
Operating income	1370.9	2,031.1	660.2
PAT	7.1	7.3	2.6
OPBDIT/OI	1.0%	1.0%	1.1%
PAT/OI	0.5%	0.4%	0.4%
Total outside liabilities/Tangible net worth (times)	2.3	2.6	4.4
Total debt/OPBDIT (times)	1.0	0.9	8.1
Interest coverage (times)	2.5	1.8	1.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

PPPPL Standalone	FY2022	FY2023	*H1FY2024
Operating income	591.4	1,004.1	318.0
PAT	3.3	3.5	1.4
OPBDIT/OI	1.0%	0.9%	1.4%
PAT/OI	0.6%	0.3%	0.4%
Total outside liabilities/Tangible net worth (times)	2.5	2.9	5.3
Total debt/OPBDIT (times)	0.9	1.3	6.6
Interest coverage (times)	2.8	1.6	1.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Feb 26, 2024	Mar 30, 2023	Nov 07, 2022	Aug 18, 2022	Sep 14, 2021	Sep 07, 2020
1	**Cash Credit**	Long Term	17.50	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable) ISSUER NOT COOPERATING**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	**Letter of Credit/SLC**	Short Term	126.00	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+ ISSUER NOT COOPERATING**	**[ICRA]A3+**	**[ICRA]A3+**
3	**Credit Exposure Limit**	Short Term	3.72	-	**[ICRA]A3+**	**[ICRA]A3+**	--	--	--	--
4	**Unallocated Limits**	Short Term	-	-	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+ ISSUER NOT COOPERATING**	**[ICRA]A3+**	**[ICRA]A3+**
5	**Long-term/Short-term Unallocated Limits**	Long Term and Short Term	-	-	-	-	-	**[ICRA]BBB(Stable)/[ICRA]A3 +; ISSUER NOT COOPERATING**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit/SLC	Very simple
Credit Exposure Limit	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	17.50	[ICRA]BBB(Stable)
NA	Letter of credit	-	-	-	126.00	[ICRA]A3+
NA	Credit exposure limits	-	-	-	3.72	[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	PPPPL Ownership	Consolidation Approach
PP Products Private Limited	100.00% (Rated entity)	Full Consolidation
Tarajyot Polymers Limited	0.0%	Full Consolidation

Source: PPPPL annual report FY2022-23

Note: ICRA has taken a consolidated view of TPL and PPPPL while assigning the ratings.

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About ICRA Limited:

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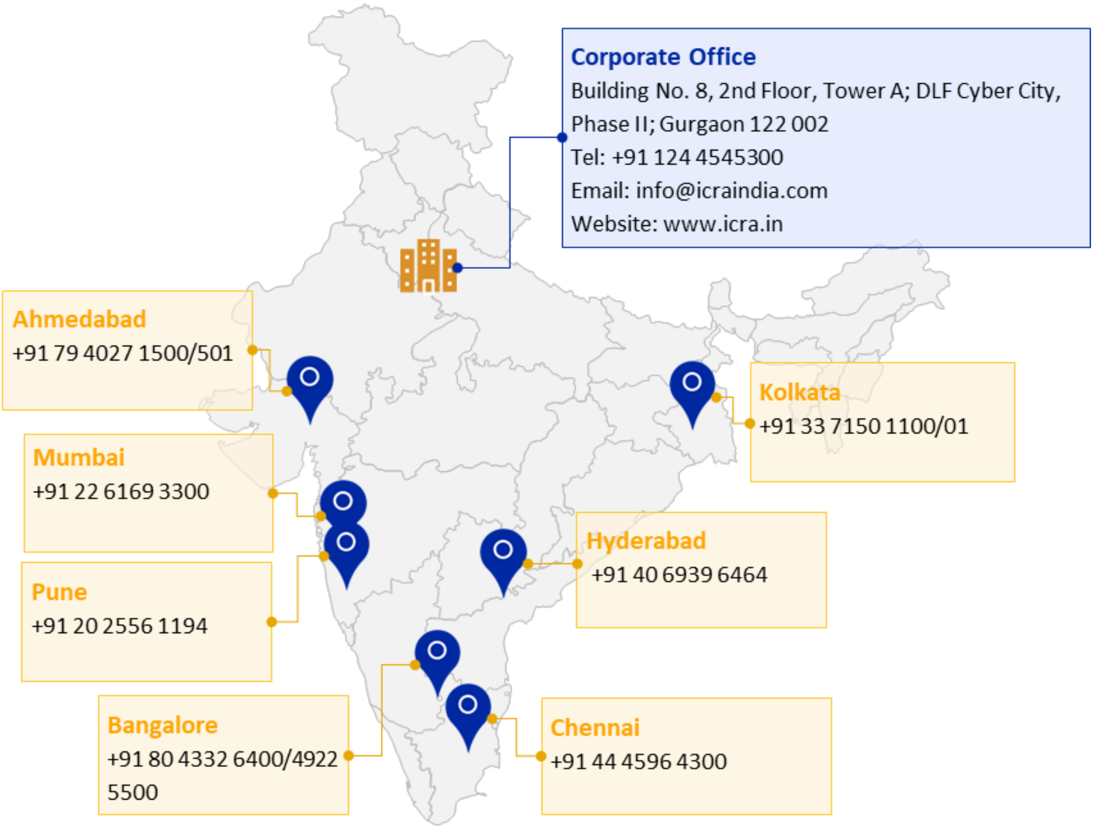

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