April 07, 2021

Godavari Polymers Private Limited: Ratings reaffirmed; Outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Cash Credit	35.00	35.00	[ICRA]BB reaffirmed; Outlook revised to Negative from Stable
Fund-based- Term Loan	10.17	5.94	[ICRA]BB reaffirmed; Outlook revised to Negative from Stable
Non-fund-based Limits	58.00	50.00	[ICRA]A4 reaffirmed
Unallocated Limits	17.63	29.86	[ICRA]BB reaffirmed; Outlook revised to Negative from Stable
Total	**120.80**	**120.80**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook reflects ICRA's expectation that Godavari Polymers Private Limited's (GPPL) credit profile would weaken over the near term given the limited revenue visibility in Institutional Government Projects (IGP) in the absence of new orders. Moreover, given the company's exposure to the micro irrigation segments (MIS), its receivables are stretched, resulting in a stretched liquidity position.

The ratings are constrained by the continuous deterioration in the financial profile of GPPL owing to a revenue decline in the past three years, which resulted in correction in margins and moderation in coverage indicators. Further, the company has high dependence on outside funds, as reflected by high TOL/TNW of 3.3 times as on March 31, 2020, which is expected to remain high over the near to medium term because of higher dependence on trade creditors to support its operations. The ratings consider the exposure of its margins to fluctuations in raw material prices, given the limited value addition in the pipe manufacturing business and intense competition in the industry. The ratings are further constrained by high geographical concentration with 85% of its revenues derived from Telangana, Tamil Nadu and Andhra Pradesh.

The ratings, however, positively factor in GPPL's extensive experience in the industry and its established brand presence across six states in India as re-distribution stockist (RDS) with a network of around 3,560 dealers. The ratings consider the diversified mix of revenues from the RDS network, MIS and IGP segments, minimising the risks related to any segment's downturn.

Key rating drivers and their description

Credit strengths

Significant experience in polymer processing business and established brand name – The company has more than 25 years of experience in the pipe manufacturing business, resulting in a reputed customer base. Moreover, GPPL has an established brand name for HDPE pipes and MIS in the regions it operates.

Diversified mix of revenues – The company has a diversified mix of revenues from the RDS network, micro-irrigation systems and IGP projects, minimising the risks related to any segment-specific downturn. However, revenues from IGP have been limited in the past two years as it did not receive any new orders.

Widespread distribution network – Over the years, GPPL has built an extensive distribution network of over 3,560 dealers in the rural and semi-urban areas across six states in India for selling its products and is expanding its presence in other states.

Credit challenges

Stretched liquidity position as reflected in high utilisation of working capital requirements – The company's liquidity position is stretched, as reflected in high utilisation (98-100%) of the sanctioned limits in the past six months owing to increased receivables and high inventory holding. GPPL stretched its creditors to meet its working capital requirements. Around 42% of its payables are against LCs and utilisation of LC limits remained high at 100% as of December 31,2020.

Continuous deterioration in financial profile – The operating income of the company declined in the past three years owing to lower orders in the IGP segment as zero orders were received. Also, the company limited its exposure to the MIS segment, mainly in Andhra Pradesh, because of the stretched receivables. A decline in revenues and stretched receivables resulted in higher debt and moderation in coverage indicators with an interest coverage of 0.9 times, TD/OPBDITA of 5.0 times and DCSR of 0.7 times in FY2020 and are expected to remain modest in the near term.

Limited order book visibility over medium to long term – The company had an outstanding order book of Rs. 31.9 crore as on December 31, 2020, including IGP and MIS segments, which provides only near-term revenue visibility. It is dependent on new orders for revenue growth over the medium term. However, the company has registered itself in Karnataka for new projects under the Jal Jeevan Mission launched by the Central Government and expects order inflow from the same, which would support revenue growth, going forward.

High geographical concentration – The company has high geographical concentration as 85% of its revenues in FY2020 and 9M FY2021 was derived from Telangana, Tamil Nadu and Andhra Pradesh. However, GPPL has presence in six states in India and is further expanding its customer base to other states.

High dependence on outside funds – GPPL is highly dependent on outside funds (bank facilities and creditors) for its working capital requirement as reflected in TOL/TNW of 3.3 times as on March 31, 2020 which is expected to remain high in the near to medium term.

Profitability indicators exposed to volatility in raw material prices – The company's revenues and margins are exposed to price fluctuations 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 its margins, considering the limited value addition and stiff competition in the industry.

Liquidity position: Stretched

GPPL's liquidity position is **stretched** with retained cash flows of Rs. 4-5 crore, free cash balance of Rs. 1 crore and negligible buffer in the working capital limits against the repayment obligation of Rs. 4-4.5 crore over the near to medium term. Stretched receivables and high inventory holding impacted the company's liquidity position. The company has been stretching its creditors to meet its working capital requirements.

Rating sensitivities

Positive factors – The rating is unlikely to be upgraded in the near term given the Negative outlook. However, the outlook may be revised to Stable if better working capital management improves the company's liquidity position and improved profitability leads to improved credit metrics.

Negative factors – Pressure on GPPL's rating could arise if any sustained decline in revenues or profitability impacts its financial profile further or a stretch in the working capital cycle impacts the company's liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

GPPL was incorporated in August 1990 as a private limited company and manufactures high-density polyethylene (HDPE) pipes, sprinkler irrigation systems, drip irrigation systems and PVC pipes. The company has two manufacturing units with an aggregate installed capacity of 24,390 MT per annum with one unit at IDA Cherlapally, Hyderabad and the other at Shadnagar of Ranga Reddy district.

Key financial indicators (audited)

AAPPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	272.1	205.9
PAT (Rs. crore)	3.9	-3.9
OPBDIT/OI (%)	6.2%	4.7%
RoCE (%)	14.6%	7.3%
Total Outside Liabilities/Tangible Net Worth (times)	3.5	3.3
Total Debt/OPBDIT (times)	3.0	5.0
Interest Coverage (times)	2.1	0.9
DSCR (times)	1.2	0.7

Source: Company, ICRA research; All ratios as per ICRA's calculations

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					April 07, 2021	-	March 26,2020	January 04,2019
1	Cash Credit	Long-term	35.00	-	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)	[ICRA]BB+ (Stable)
2	Term Loan	Long-term	5.94	5.94	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)	[ICRA]BB+ (Stable)
3	Letter of Credit	Short-term	30.00	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4+
4	Bank Guarantee	Short-term	19.00	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4+
5	Derivate	Short-term	1.00	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4+
6	Unallocated	Long-term	29.86	-	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)	[ICRA]BB+ (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 click here

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	-	-	-	35.00	[ICRA]BB(Negative)
NA	Term Loan-1	March,2015	-	December,2021	2.61	[ICRA]BB(Negative)
NA	Term Loan-2	March,2018	-	January,2023	3.33	[ICRA]BB(Negative)
NA	Letter of Credit	-	-	-	30.00	[ICRA]A4
NA	Bank Guarantee	-	-	-	19.00	[ICRA]A4
NA	Derivate	-	-	-	1.00	[ICRA]A4
NA	Unallocated	-	-	-	29.86	[ICRA]BB(Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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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.

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