

August 25, 2023

## Gowra Petrochem Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based	4.00	4.00	[ICRA]BBB+(Stable); reaffirmed
Long-term/Short-term – Fund based/Non-fund based	49.80	49.80	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
<b>Total</b>	<b>53.80</b>	<b>53.80</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation factors in Gowra Petrochem Private Limited's (GPPL) established relationship with Reliance Industries Limited (RIL) as a del credere agent (DCA) for the polymer business in Andhra Pradesh and Telangana, and its diversified revenue portfolio. GPPL's revenue consists of income from the trading of metals and chemicals along with income from the sale of RIL's polymer products as its DCA. The financial risk profile remains comfortable with healthy operating and net margins on the back of increased interest income from the DCA business. The DCA income rose to Rs. 11.70 crore in FY2023 from Rs. 9.69 crore in FY2022 as the volumes and realisation increased along with the higher credit period availed by some customers.

The revenues from the trading segment declined in FY2023 on account of volatility in the prices of metals in the last one year. However, the trading revenues improved in Q1 FY2024. The entity's total clean credit exposure/net worth ratio reduced to ~63% as on March 31, 2023 from ~88% as on March 31, 2022 due to the increase in tangible net worth over the years. Further, the capital structure remained comfortable and the coverage indicators were moderate.

The ratings are, however, constrained by the exposure to counterparty credit risk in its DCA and trading business, as any default on payments could have an adverse impact on GPPL's profitability, as seen in the past. The profitability margins also remain susceptible to interest rate movements. The profit margins in the past were impacted by large bad debt write-offs for some long-pending receivables. However, no bad debt was recorded in FY2022 and FY2023. The company recovered bad debts of Rs. 0.41 crore in FY2023 and 0.18 crore in FY2022 for the earlier years. Further, the working capital intensity also remained moderately high in the range of ~51%-100% from FY2019-FY2023. However, the working capital intensity adjusted for the overall DCA income remained moderate at ~9% in FY2023.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's belief that GPPL will continue to benefit from its established relationship with RIL, resulting in healthy commission and interest income.

### Key rating drivers and their description

#### Credit strengths

**Established DCA for RIL** - GPPL has been associated with RIL for over two decades and is involved in the distribution of polymer products manufactured by RIL, namely polypropylene (PP), polyethylene (PE) and poly vinyl chloride (PVC), in Telangana and Andhra Pradesh. The volumes of the DCA business grew to 57,640 MT in FY2023 from 49,806 MT in FY2022. The volumes for RIL increased ~20% YoY to 48,017 MT in FY2023 from 40,000 MT in FY2022. The DCA income rose to Rs. 11.70 crore in FY2023 from Rs. 9.69 crore in FY2022 on account of the increase in volumes and realisation along with the higher credit period availed by some customers. The DCA revenue consists of direct income of cash discounts, commission income and interest income. Interest income in the DCA business was the major contributor to the DCA revenue in FY2023.

**Diversified revenue portfolio** - GPPL's revenue consists of income from the trading of metals and chemicals and income from the sale of polymer products as RIL's DCA. The revenue from the trading segment declined in FY2023 on account of volatility in the prices of metals in the last one year. However, the trading revenues improved in Q1 FY2024, to ~Rs. 36 crore. Around 80% of the trading business is backed by orders and the balance portion is sold in the open market.

**Comfortable financial risk profile** – The financial risk profile remains comfortable with healthy operating and net margins of 13.4% and 11.6%, respectively, in FY2023 on the back of increased interest income from the DCA business. At a consolidated level, the gearing and TOL/TNW ratios remained moderate at 0.59 times and 0.81 times, respectively, as on March 31, 2023. The interest coverage on a consolidated level remained moderated at 2.98 times in FY2023, but is expected to improve in FY2024. The working capital intensity adjusted for the overall DCA revenue (Rs.~707.03 crore in FY2023) remained moderate at ~9% in FY2023 vis-à-vis ~10% in FY2022. The entity's total clean credit exposure/net worth ratio reduced to ~63% as on March 31, 2023, compared with ~88% as of March 31, 2022 due to an increase in the tangible net worth over the years.

### Credit challenges

**Exposure of profitability to interest rate fluctuations** - The company received an interest of Rs. 10.79 crore in FY2023 against Rs. 6.03 crore in FY2022. Of this, the interest income from the DCA business increased to Rs. 6.02 crore in FY2023 from Rs. 3.7 crore in FY2022. The interest income earned from customers contributes significantly to GPPL's operating income (OI). The balance portion pertains to interest income from inter-corporate deposits given to promoter related companies. The company's net interest income, therefore, needs to be sustained to maintain its profitability levels. The interest income/interest expense ratio was healthy in the range of 3-6 times during FY2020-FY2023. In FY2022, the ratio witnessed a slight moderation to 1.89 times. The profitability is exposed to interest rate fluctuations and GPPL's ability to pass on any increase in interest rates remains important.

**Counterparty credit risk due to DCA business** - GPPL bears credit risk while supplying the principal products to customers and any default on payments by the customers could adversely affect the company's profitability and net worth levels. Although GPPL had no bad debt in FY2022 and FY2023, it reported a bad debt of Rs. 5.45 crore in FY2020, which moderated to Rs. 1.9 crore in FY2021. The company recovered a bad debt of Rs. 0.41 crore in FY2023 and 0.18 crore in FY2022 for the earlier years.

### Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, supported by stable cash flows from operations and adequate cushion from undrawn working capital limits with the average utilisation of fund-based limits being moderate at 40% in FY2023. Further, the company does not have any major capex plans and has nil debt repayment obligations in FY2024 and FY2025.

### Rating sensitivities

**Positive factors** – ICRA could upgrade GPPL's ratings if there is any significant improvement in the company's scale of operations and profitability, which will strengthen the net worth and enable business diversification.

**Negative factors** – Pressure on GPPL's ratings could arise if the margins are lower than expected, or if there is any deterioration in the working capital cycle impacting the liquidity position. Any decrease in volumes for the DCA business, or higher-than expected debtor write-offs impacting the company's profitability may also trigger a rating change. A specific credit metric for downgrade would be interest coverage of less than 3.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has consolidated the financials of both the entities – Gowra Metals and Polymers Private Limited and Gowra Bits and Bytes Private Limited - to which corporate guarantees have been extended by GPPL (Gowra Petrochem Private Limited).

## About the company

GPPL was incorporated in March 1995 to conduct business in indenting, consignment sales, stocking and trading of various polymers, organic and inorganic chemicals, solvents and intermediates. It has been the DCA for RIL for the distribution of polymer products in Andhra Pradesh since 1996. The company is a DCA for Chemplast Sanmar Ltd and Cabot Sanmar Ltd as well. GPPL is also involved in the direct trading of some metals, chemicals and solvents.

Gowra Metals and Polymers Private Limited (GMPPL) is engaged in the trading of metals and Gowra Bits, while Bytes Private Limited (GBBPL) provides IT infrastructure services and trades in computer peripherals in the domestic market.

### Key financial indicators:

GPPL Standalone	FY2022	FY2023*
Operating income	147.33	69.16
PAT	12.80	7.99
OPBDIT/OI	10.2%	13.4%
PAT/OI	8.7%	11.6%
Total outside liabilities/Tangible net worth (times)	0.34	0.56
Total debt/OPBDIT (times)	0.87	3.30
Interest coverage (times)	7.64	4.73

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore \* - Provisional

GPPL Consolidated	FY2022	FY2023*
Operating income	280.60	242.50
PAT	25.94	8.28
OPBDIT/OI	8.4%	5.8%
PAT/OI	9.2%	3.4%
Total outside liabilities/Tangible net worth (times)	0.69	0.81
Total debt/OPBDIT (times)	1.36	4.32
Interest coverage (times)	7.07	2.98

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore \* - Provisional

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2020 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 25, 2023	Aug 18, 2022	Aug 03, 2021	-
1 Fund based	Long-term	4.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2 Fund based/Non-fund based	Long-term and short term	49.80	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based	Simple
Long-term/ Short -term – Fund-based & Non-Fund based	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	Fund based	NA	NA	NA	4.00	[ICRA]BBB+ (Stable)
NA	Fund based/Non-fund based	NA	NA	NA	49.80	[ICRA]BBB+ (Stable) / [ICRA]A2

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*	Ownership	Consolidation Approach
Gowra Metals & Polymers Private Limited	NA	Full Consolidation
Gowra Bits & Bytes Private Limited	NA	Full Consolidation

\*GPPL extended Corporate guarantees to the debt availed by the above entities

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### Branches



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