September 28, 2023

Polyplastics Auto Components Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based- Cash credit	13.50	13.50	[ICRA]A- (Stable); reaffirmed
Long term - Fund based – Term loan	3.55	0.83	[ICRA]A- (Stable); reaffirmed
Long-term - Unallocated	3.95	6.67	[ICRA]A- (Stable); reaffirmed
Total	**21.00**	**21.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Polyplastics Industries India Pvt. Ltd. (PIPL), Polyplastics Auto Components Private Limited (PACL), Polyplastics Decorative Pvt. Ltd. (PDPL) and other entities of the Polyplastics Group (hereafter collectively referred to as the Group), given the strong operational and financial linkages among the entities. ICRA has considered the consolidated financial statements of Polyplastics Industries India Pvt. Ltd., along with its subsidiaries and associates.

The ratings reaffirmation factors in ICRA's opinion that the Group will benefit from its expanded capacities in Gujarat and Tamil Nadu, which supported healthy revenue growth in FY2023. A healthy share of business (SOB) with key principals should enable the Group to maintain a steady order book and thus, healthy capacity utilisation. The ratings continue to factor in the Group's established track record in the electroplated plastic components business for more than three decades, the vast experience of its promoters, its strong business relationships with reputed original equipment manufacturers (OEMs) with a healthy share of business (SOB) for electroplated plastic components and technical collaborations.

The ratings are, however, constrained by the moderate debt coverage indicators owing to high debt servicing in FY2024 and FY2025 for the debt taken in the past for group expansion. The Group's profitability remains vulnerable to movements in key input prices and its ability to pass on escalations wherever possible. While it has been able to maintain its operating margins by implementing cost-optimisation measures and receiving price corrections from its principals, its ability to sustain its healthy earnings growth remains crucial, given sizeable repayment obligations and a moderate current industry demand scenario. The Group has high dependence on the passenger vehicle (PV) segment, which drives around 70% of the Group's turnover and its earnings remain vulnerable to any supply or demand disruption in the end-user segment and cyclicality in the overall automotive industry. The Group's adequate liquidity profile which includes sizeable free cash levels, however, lends comfort.

The Stable outlook on the rating reflects ICRA's expectations that the Group will benefit from its expanded capacities and its established relationships with reputed OEMs with locational advantages of its facilities being close to key clients.

Key rating drivers and their description

Credit strengths

Established track record in auto component industry – The Polyplastics Group has a leading market position in plastic moulded and chrome-plated automotive components such as emblems, grills, and wheel covers. On a consolidated basis, emblems, and grills form ~17% and 24% of the Group's revenues, respectively, in FY2023. The company continues to maintain a dominant position in the emblem and grills product segments with a high SOB with leading OEMs. It also benefits from its plants being in proximity to various OEMs' production facilities across the country. The promoters have strong experience of over 30 years in the auto ancillary industry.

Revenue growth supported by long established relationships with reputed OEMs – The Group has established relationships and healthy share of business with major OEMs in the PV and two-wheeler (2W) segments like Maruti Suzuki, Honda, Tata Motors, General Motors, Renault Nissan, etc. The company has a moderately diversified customer profile with its top-three customers accounting for 49% of the Group's revenues. The Group has been able to maintain a healthy SOB with its key clientele in specific product categories, such as emblems, chrome-plated grills and interior/exteriors decorative parts. The Group witnessed a healthy revenue growth of 40% in FY2023 to reach a turnover of Rs. 995 crore, supported by volume growth as well as increased product realisations. The Group was able to ramp-up its new capacity additions in its Gujarat and Tamil Nadu plants. Going forward, the earnings growth could likely moderate led by ongoing demand slowdown in the PV segment.

Technological collaboration with foreign players – The Group has technological collaborations with overseas players like Sakae Riken Koygo (Japan), resulting in an ability to use the latest technology, as an edge over its competition. The Group derives competitive advantage from its pan-India presence as well as the strong product designing, design validation and manufacturing capabilities, thus, being a one-stop shop for its OEM clientele. The company has an in-house design team of 5-10 people and multiple tool rooms to support its product design and validation capabilities. The company is planning to add some new capacities in body painting lines to support the client requirements.

Credit challenges

Profitability susceptible to raw material price fluctuations – The key raw materials used by the company are copper, nickel and palladium for electroplating, plastic for moulding, paint, and related chemicals. Significant rise in the prices of these raw materials in FY2022 and early FY2023 had been exerting pressure on the Group's gross margins. In late FY2023, the prices of these key raw materials moderated and the Group was able to get price escalation from its OEM customers though with some lag. This, along with cost optimisation measures being implemented, helped the Group maintain operating margins. Ability to pass on such price rise in a timely manner thus, remains crucial for maintaining margin profile.

High debt servicing to keep coverage metrics at moderate levels – While the Group reported healthy earnings growth in FY2023, the Group's DSCR remained moderate at 1.4 times owing to high debt repayments, resulting from relatively shorter-tenor (four to five years) term loans availed for capex in previous years. Moreover, working capital debt is expected to increase to support the higher scale growth. Owing to high debt servicing in FY2024, coverage metrics such as DSCR are expected to be moderate in FY2024 though Debt/OPBITDA would marginally improve. ICRA further expects these indicators to witness improvement in FY2025 in absence of any major debt-raising plans.

Exposure to cyclicality in the auto sector, with PV segment driving large share of revenues – The Group derives most of its revenues from the domestic automotive market and, hence, its earnings remain susceptible to the inherent cyclicality of the sector. Around 70% of the Group revenues come from the PV segment, followed by 20% from the 2W segment and remaining from the commercial vehicle (CV) segment and the non-automotive segment such as sanitary ware. Hence, any adverse impact on PV demand would exert pressure on the company's prospects.

Liquidity position: Adequate

The Group has an adequate liquidity profile. The Group continue to maintain substantial free cash balance as of August 2023 and sufficient cash generation from the business to manage its working capital requirement and unutilised working capital limits of Rs. 20-22 crore. While the Group has been availing higher credit from its suppliers, it also expects further limit enhancements to support its growing working capital requirements. Although the debt repayment obligations are sizeable (Rs. 55-60 crore) in the near to medium term, ICRA expects the Group to meet these through its cash flow generation, as operations scale up.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if the Group increases its scale of operations and profitability, on a sustained basis, through improving demand, process improvement or reduction in debt, leading to improved coverage indicators.

Negative factors – Pressure on the ratings could arise, if the industry conditions lead to significant reduction in profitability, cash accruals or stretch in the working capital cycle. A specific credit metric for a downgrade is if Total Debt/OPBDITA is above 2.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Component Suppliers](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PACL. List of companies are given in Annexure-2

About the company

Incorporated in 2010, PACL manufactures injection moulded plastic auto components for the four-wheeler passenger vehicles at its plant located in Chennai, Tamil Nadu. A wholly owned subsidiary of PIPL, PACL was formed after an agreement between PIPL and one of its major customers namely Nissan India to cater to the latter's requirements of plastic auto components in line with increase in the sale volumes of its cars in the country. The operations are similar to the other group companies. The Chennai plant is spread over 10,000 sq mtrs and has TS 16949 and ASES-C certifications. The plant has capacities for Injection Molding and Paint Shop (for wheel covers and caps). PACL is a part of larger Polyplastics Group which are one of leading suppliers of plastic based decoratives for PV and 2W OEMs.

Key financial indicators (audited/Provisional)

Consolidated	FY2022	FY2023*
Operating income	710.3	994.9
PAT	6.1	30.0
OPBDIT/OI	10.3%	10.4%
PAT/OI	0.9%	3.0%
Total outside liabilities/Tangible net worth (times)	2.2	2.0
Total debt/OPBDIT (times)	3.2	2.2
Interest coverage (times)	3.5	4.7

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

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 of * (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2021	
					Sep 28, 2023	Dec 21, 2022	Jun 30, 2022	Mar 25, 2021	Sep 03, 2020
1	**Cash Credit**	Long term	13.50	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**
2	**Term Loans**	Long term	0.83	0.83	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**
3	**Unallocated**	Long term	6.67	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-	-

**Outstanding as on August 31, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based- Cash Credit	Simple
Long Term - Fund Based – Term Loans	Simple
Long-term - Unallocated	Not applicable

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**	NA	9.35%	NA	13.50	[ICRA]A-(Stable)
NA	**Term Loans**	2017	9.40%	2025	0.83	[ICRA]A-(Stable)
NA	**Unallocated**	NA	NA	NA	6.67	[ICRA]A-(Stable)

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
Polyplastics Industries India Pvt. Ltd.	NA*	Full Consolidation
Subsidiaries		
Polyplastics Auto Components Private Limited	99.71%	Full Consolidation
Polyplastics Decorative Private Limited	99.79%	Full Consolidation
K2 Cadem Technologies Private Limited	50.00%	Full Consolidation
Polyplastics Mechatronics Private Limited	50.06%	Full Consolidation
Decorax Industries Private Limited	70.00%	Full Consolidation
Associates		
Polyplastics Uttar Bharat Private Limited	80.87%	Equity Method
Sakae Riken Polyplastics India Private Limited	24.00%	Equity Method

*Source: Company, *parent company*

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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.

For more information, visit www.icra.in

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