

Aadi Polymers Private Limited

March 29, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund based term loan	5.50	-	-
Long Term: Fund based cash credit limits	3.50	3.50	[ICRA]BB (Stable); reaffirmed
Short Term: Non-Fund based limits	1.00	4.00	[ICRA]A4; reaffirmed
Long/ Short Term: Unallocated	-	2.50	[ICRA]BB (Stable)/ [ICRA]A4; reaffirmed
Total	10.00	10.00	

Rationale

The reaffirmation of the ratings factor in the established track record of promoters in the polyurethane (PU) foam industry for more than four decades; demonstrated support by the promoters by way of infusion of unsecured loans in the business as and when required; and healthy capacity utilisation of its manufacturing unit which coupled with the improved realisations have led to improvement in operating profitability over the past three years. The ratings also take note of the comfortable financial risk profile characterised by modest gearing of 1.2 times as on Mar 31, 2018 with prepayment of term loans and healthy coverage metrics with interest cover of 6.0 times and TD/OPBITDA of 2.1 times in FY2018.

The ratings are however constrained by the modest scale of operations despite the healthy improvement in revenues in FY2018 by 22.5% to Rs. 67.40 crore. ICRA also takes note of the highly competitive and fragmented industry in which the company operates, where due to the presence of a large number of participants, both organised and unorganised, the pricing flexibility is constrained. The ratings are also constrained by the vulnerability of the company's profitability to fluctuations in raw material prices and the high geographic concentration risk given that majority of sales are derived from Uttar Pradesh, Punjab and Haryana states.

Outlook: Stable

ICRA believes AAPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' in case there is substantial growth in revenue and profitability. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or deterioration of capital structure on account of any large debt-funded capex.

Key rating drivers

Credit strengths

Established track record of the promoters - The promoters have over four decades of experience in the PU foam industry, due to which they have developed healthy relationships with customers and suppliers and established a wide distribution network. Also, the promoters have demonstrated support by way of infusion of unsecured loans in the business as and when required. Unsecured loans constituted to Rs. 8.73 crore as on Mar 31, 2018.

Improvement in operating profitability - Healthy capacity utilisation of its manufacturing unit which coupled with the improved realisations have led to improvement in operating profitability over the past three years. The capacity utilisation of the plant is 58% in FY2018.

Comfortable financial risk profile – The financial risk profile of the company is comfortable characterised by low gearing of 1.2 times as on Mar 31, 2018 with prepayment of term loans and healthy coverage metrics with interest cover of 6.0 times and TD/OPBITDA of 2.1 times in FY2018.

Credit weaknesses

Modest scale of operations – The operating income of the company grew by 22.5% to Rs. 67.40 crore on account of improvement in volumes and realisations in FY2018. Despite the growth in revenues, the company's scale of operations remains modest.

Operations in a competitive and fragmented industry: The PU form industry is intensely competitive and fragmented; which limits the company's pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Vulnerability of margins to raw material prices – Raw material cost forms a significant portion of the company's total manufacturing cost (about 80%). Polyol and Toluene Di-Isocyanate (TDI), the major raw materials, are manufactured from by-products of crude oil. The margins of the company are susceptible to raw material prices and AAPL has limited ability to fully pass on the increase in raw material prices to its customers.

High geographic concentration risk - Sales remain concentrated in the UP, Haryana and Punjab market that account for 100% of its revenues. Nonetheless, the company is diversifying into the northern markets.

Liquidity Position:

The liquidity position remains adequate with adequate buffer on working capital limits and does not have any repayment obligations over the near term. Further, the company has cash balances of Rs. 0.4 crore and support by way of unsecured loans from promoters of Rs. 8.73 crore as on March 31, 2018.

Analytical approach:

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

About the company:

Aadi Polymers Private Limited (APPL) was incorporated in the year 2004 by the Jain family. The company is engaged in the manufacturing of Polyurethane (PU) Foam. The company commenced its operations from its manufacturing unit located at Sikandrabad in Ghaziabad with the installed capacity of 3000 MTPA. In FY16, the company shifted its manufacturing unit to Surajpur, Greater Noida with an installed capacity of 7000 MTPA. The company has installed 2 foaming machines, one of which was imported from Germany from Hennecke GmbH. Apart from this the company has installed one batch foaming machine, two vertical cutting machines and three circular cutting machines.

Key Financial Indicators:

	FY2017	FY2018
Operating Income (Rs. crore)	55.0	67.4
PAT (Rs. crore)	4.1	2.7
OPBDIT/ OI (%)	18.8%	10.4%
RoCE (%)	32.1%	18.9%
Total Debt/ TNW (times)	1.8	1.2
Total Debt/ OPBDIT (times)	1.5	2.1
Interest coverage (times)	4.4	6.0

Source: AAPL

Status of non-cooperation with previous CRA:

Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)						Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				March 2019	Sept 2017			
1 Fund based-Term Loan	Long Term	5.50	Nil	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	
2 Fund based-Cash Credit	Long Term	3.50	3.50	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	
3 Non-Fund based-Letter of Credit	Short Term	1.00	4.00	[ICRA]A4	[ICRA]A4	-	-	
3 Unallocated Limits	Long/ Short Term	-	2.50	[ICRA]BB (Stable)/A4	[ICRA]BB (Stable)/A4	-	-	

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 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 facilities	Oct 2018	9.65%	-	3.50	[ICRA]BB (Stable)
NA	Non Fund based: Letter of Credit	Oct 2018	-	-	4.00	[ICRA]A4
NA	Unallocated				2.50	[ICRA]BB (Stable)/ [ICRA]A4

Source: AAPL;

Annexure-2: List of entities considered for consolidated analysis

NA

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Vipin Jindal
+91 124 4545 355
vipin.jindal@icraindia.com

Manish Ballabh
+91 124 4545 812
manish.ballabh@icraindia.com

Shweta Sankaramani
+91 124 4545 318
shweta.sankaramani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents