December 21, 2022

Polyplastics Industries India Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Cash Credit	64.00	64.00	[ICRA]A-(Stable) reaffirmed
Long-term – Fund-based Term Loans	137.00	137.00	[ICRA]A-(Stable) reaffirmed
Short-term – Non-fund Based	33.00	33.00	[ICRA]A2+ reaffirmed
Long-term/ Short-term Unallocated	15.00	15.00	[ICRA]A- (Stable)/[ICRA]A2+ reaffirmed
Total	**249.00**	**249.00**	

**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 (listed in Annexure 2).

The ratings reaffirmation favourably factors ICRA's expectation that the Group will post healthy revenue growth in FY2023 supported by the ramp-up of new capacities in the Group's production facilities in Gujarat and Tamil Nadu. 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. Also, the technical collaboration agreements with overseas players have enabled the Group to enhance its product development capabilities and ability to meet quality, cost, and delivery parameters.

The ratings are, however, constrained by the lower than anticipated operating margins of the Group owing to the time lag and limited extent of its ability to pass on increase in input costs to OEM customers. Due to high debt servicing in FY2023, the Group's coverage indicators are expected to remain under pressure and are expected to show only gradual improvement with paring down of debt and ramping up of earnings. However, the ratings continue to draw comfort from the sufficient free cash levels to support operations in case of any cash flow mismatches. The ratings also remain constrained by the high dependence on the passenger vehicle (PV) segment, which drives around 80-85% of the Group's turnover. Thus, the Group's earnings remain vulnerable to any supply or demand disruption in the PV segment and cyclicality in the overall automotive industry.

The Stable outlook on the ratings reflects ICRA's expectation of the Group's ability to grow its volumes across a diversifying product profile owing to its established relationships with leading PV OEMs and healthy outlook on the overall PV industry in the near to medium term.

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 form ~18% of the Group's revenues in FY2022, followed by grills (13%). The company continues to maintain a dominant position in the emblem product segment with a high SOB with leading OEMs. The Group has also diversified into body painting and interior décor parts. It also benefits from its plants being located in proximity to various OEMs' production facilities across the country. The promoters have a strong experience of over 30 years in the auto ancillary industry.

Healthy growth to continue, supported by long established relationships with reputed OEMs – The Group enjoys established relationships with its customers and caters to major OEMs like Maruti Suzuki, Honda, Tata Motors, General Motors, Renault Nissan, etc, while its top three customers generate 35-40% of the Group's revenues. The Group has been able to maintain a healthy SOB of 70-100% with its key clientele in specific product categories, such as emblems and chrome-plated grills. Around 5-6% of the Group revenues also come from exports to OEMs such as Renault Nissan, while it has been acquiring new export clients as well. Moreover, continued additions to the product portfolio have enabled it to grow its content per vehicle. As a result, the Group witnessed a healthy revenue recovery in FY2022 to reach a turnover of Rs. 710 crore at 34% YoY growth. In FY2023, the Group ramped up its new capacity additions in its Gujarat and Tamil Nadu plants, which led to healthy revenues of more than Rs. 600 crore (till November 31, 2022). ICRA expects the Group to register a healthy revenue growth of 20-25% in this fiscal supported by a healthy order book and incremental production capacity.

Technological collaboration with foreign players – The Group has enjoyed 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 has set up its largest greenfield facility in Gujarat, which commenced operations from FY2022, and has capabilities across the Group's four key activities—moulding, plating, painting and assembling. The company has also installed a new body paint line targeted for Maruti Suzuki in its Chennai facility. The company has an in-house design team of 5-10 people and multiple tool rooms to support its product design and validation capabilities.

Credit challenges

Profitability susceptible to raw material price fluctuations, as witnessed in current fiscal – The Group's operating profit margins have continued to remain under pressure amid the inflationary headwinds and partial price escalation provided by OEMs, indicating only moderate bargaining power of the Group with the OEMs. The Group does not receive price escalation for part of its raw materials such as nickel and copper (used for electroplating) from most of its OEM customers. The Group's ability to improve its margins will continue to be a rating monitorable.

High debt servicing to keep coverage metrics at moderate levels – Despite healthy revenue and absolute OPBITDA growth led by higher production levels, the Group's DSCR is expected to be under pressure owing to high debt repayments resulting from relatively short tenor (~4-5 year) term loans availed for capex. However, going forward, the working capital debt is expected to increase to support the ramp-up of new capacities, while its term debt will be sizeably pared down. As the profitability remains under pressure amid high debt servicing in FY2023, coverage metrics such as DSCR would remain modest at 1.2–1.4 times in FY2023 though Debt/OPBITDA would improve to 2.3–2.6 times.

Exposure to cyclicality in the auto sector, with PV segment driving large share of revenues – The Group derives almost 80-85% of its revenues from the PV segment. Hence, any adverse impact on PV demand would have a detrimental impact on the company. Although the company has a high dependence on the PV segment, its PV portfolio is diversified with the largest customer, Maruti Suzuki, generating 22% of its total sales. Also, 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.

Liquidity position: Adequate

The Group has an adequate liquidity profile as reflected by a free cash balance of Rs. 46 crore as of end October 2022, supported by sufficient cash generation from the business to manage its working capital requirement and unutilised working capital limits of Rs. 18-24 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. 50-55 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 revival in demand and process improvement or reduction in debt, leading to improved coverage indicators.

Negative factors – Negative 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. Specific credit metrics that could lead to a rating downgrade include Total Debt/OPBDITA 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 Rating Approach-Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PIPL. The list of companies consolidated are shared in Annexure-2.

About the company

PIPL was established as a partnership firm in 1968 and was converted into a company in September 2008. It is the flagship company of the Polyplastics Group and manufactures automotive components and assemblies, including emblems (electroplated, painted, gold plated, and hot stamped), automotive plastic-moulded components, wheel trims, and wheel covers, electroplated bigger parts (radiator grills, license plate garnishes, hood strips), decorative body-side moulding, etc. It has five manufacturing units—one each in Yamuna Nagar (Haryana), Pune (Maharashtra), Bawal (Haryana), Sanand (Gujarat), and Daslana (Gujarat). The company's clientele includes major automobile players such as Maruti, Honda, Tata Motors, and General Motors, among others. Headquartered in Gurgaon (Haryana), the Group is headed by promoters, Mr. Kamal Gupta and Mr. Kapil Gupta.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	530.2	710.3
PAT	8.6	6.1
OPBDIT/OI	11.0%	10.3%
PAT/OI	1.6%	0.9%
Total outside liabilities/Tangible net worth (times)	1.9	2.2
Total debt/OPBDIT (times)	4.0	3.2
Interest coverage (times)	3.2	3.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Dec 21, 2022	Jun 30, 2022	-	Mar 25, 2021	Sep 03, 2020	Mar 6, 2020	Jun 5, 2019
1	**Cash Credit**	Long term	64.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	**Term Loans**	Long term	137.00	134.66	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	**Non-fund Based**	Short term	33.00	-	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	**Unallocated**	Long term and short term	15.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based- Cash Credit	Simple
Long Term - Fund Based – Term Loans	Simple
Short Term - Non Fund Based	Very Simple
Long-term/ Short-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	8.3%	NA	64.00	[ICRA]A- (Stable)
NA	Term Loans	2017-2022	7.9 - 8.3%	2022-2027	137.00	[ICRA]A- (Stable)
NA	Non-fund Based	NA	NA	NA	33.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	15.00	[ICRA]A- (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
Subsidiaries		
Polyplastics Decorative Private Limited	100.00%	Full Consolidation
Polyplastics Auto Component Private Limited	100.00%	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	30.87%	Equity Method
Sakae Riken Polyplastics India Private Limited	24.00%	Equity Method

Source: Company

Note: ICRA has taken a consolidated view of PIPL, its subsidiaries and associates while assigning the ratings.

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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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