

MACRO POLYMERS PRIVATE LIMITED

Rating

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ICRA has upgraded the long term rating from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 26.34 crore¹ (reduced from Rs. 28.00 crore) term loan facility and the Rs. 31.50 crore cash credit facility of Macro Polymers Private Limited (MPPL)². ICRA has also upgraded the short term rating from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 2.16 crore (enhanced from Rs. 0.50 crore) short term non-fund based limits of MPPL. The outlook on the long-term rating is 'Stable'.

Key Financial Indicators

| Particulars | Units | FY14 | FY15 | H1 FY16 |
|------------------------|-----------|---------|---------|-------------|
| | | Audited | Audited | Provisional |
| Net Sales | Rs. Crore | 138.13 | 132.37 | 61.40 |
| Operating Income (OI) | Rs. Crore | 141.42 | 136.57 | 63.67 |
| OPBDIT | Rs. Crore | 12.99 | 14.17 | 7.83 |
| Profit After Tax (PAT) | Rs. Crore | 6.85 | 5.38 | 4.18 |
| Net Cash Accruals | Rs. Crore | 8.55 | 8.97 | 6.12 |
| Total Debt | Rs. Crore | 27.61 | 23.24 | 19.97 |
| Tangible Net worth | Rs. Crore | 21.86 | 26.62 | 30.80 |
| OPBDIT/OI | % | 9.18% | 10.38% | 12.30% |
| PAT/OI | % | 4.84% | 3.94% | 6.56% |
| RoCE | % | 29.06% | 23.19% | 25.26% |
| RoNW | % | 36.62% | 22.21% | 29.08% |
| Total Gearing | times | 1.26 | 0.87 | 0.65 |
| OPBDIT/Int | times | 7.97 | 4.92 | 10.71 |
| NCA/Total Debt | % | 31% | 39% | 61% |
| Total Debt/OPBDITA | times | 2.13 | 1.64 | 2.55 |
| Debtor days | days | 62 | 73 | 74 |
| Inventory days | days | 43 | 29 | 30 |
| Creditor days | days | 53 | 53 | 55 |
| NWC/OI | % | 15% | 17% | 16% |

Source: Company's Financial Statements & ICRA's analysis

Note: OPBDIT: Operating Profit before Depreciation, Interest and Tax; PBIT: Profit before Interest and Tax; ; RoCE (Return on Capital Employed) = PBIT/Avg. (Total Debt + Tangible Net Worth + Deferred Tax Liability – Capital Work-In-Process); RoNW (Return on Net Worth) = PAT/Avg. (Tangible Net Worth + Minority Interest); GCF: Gross Cash Flows; I&F: Interest & Finance charges; NWC: Net Working Capital

Website
www.icra.in

¹ 100 lakh = 1 crore = 10 million

² For complete rating definition, please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

Key Rating Considerations

Credit Strengths

- Long and established presence of the company in the business of synthetic resin manufacturing; technical capabilities of the promoters and continuous R&D imparts significant operating flexibility to adapt to changing market conditions.
- Diversified customer base and long established relationship with various customers with 60-70% of the sales through repeat orders
- Healthy return and debt coverage indicators, driven by sound value addition in business and traction in margin
- Healthy accruals coupled with reduction in reliance on borrowing led to improvement in gearing from 1.26x as on March 31, 2014 to 0.65x as on September 30, 2015

Credit Concerns

- High competition in the industry, with the presence of a large number of small unorganised players
- Debt funded capital expenditure plan in Q4 FY16 and FY17. may lead to pressure on credit metrics in the interim period, till commensurate returns from the same starts flowing
- Vulnerability of profitability to raw material price fluctuations, with the key raw materials being petroleum derivatives
- Vulnerability of profitability to currency fluctuations as imports constitutes ~50% of the total raw material cost and foreign currency loan; natural hedge by way of exports partly mitigates the risk.

Rating Rationale

The ratings upgrade factors in the improvement in the company's financial risk profile characterized by better profit margins in FY15 and in H1 FY16, aided by better procurement strategies; healthy return indicators and debt coverage indicators, coupled with significant improvement in capital structure on account of healthy accruals, and limited borrowing levels. The ratings continue to reflect MPPL's long and established presence in the synthetic resin industry; its healthy capacity utilisation levels, diversified customer base and strong relationships with its customers which impart stability to revenues through repeat orders.

The ratings are however continue to be constrained by the high level of fragmentation in the synthetic resin industry; the vulnerability of MPPL's profitability to raw material price fluctuations, with its key raw materials being petroleum derivatives and to foreign exchange fluctuation risk given the high proportion of imports and foreign currency loans, though natural hedge by way of exports partly mitigates the risk. ICRA also notes that the company proposes to undertake debt funded capital expenditure over the next two fiscals, which may result in moderation of the return and coverage indicators in near to medium term.

Company Profile

Macro Polymers Private Limited (MPPL) is engaged in manufacturing of synthetic resins used in paints, printing inks and adhesive industries. MPPL was set up by its current chairman Mr Shirish Parikh as a proprietor ship firm in 1962, and was converted into a private limited company in 1995. The company's manufacturing facilities are located in Gujarat at Moraiya (26,200 MTPA capacity) and Odhav (1,000 MTPA capacity).

Business and Competitive Position

Alkyd resin is the main product of the company contributing about ~75% to the revenues

MPPL manufactures a variety of resins including Alkyd resins, Butylated Urea Formaldehyde resins (UF), Melamine Formaldehyde resins (MF), Acrylic resin, Epoxy resins, Ketone resins and others. While the resins that the company manufactures find applications in the paints, printing ink and adhesive industries, almost the entire production of MPPL is supplied to the paints industry in industrial segment. The resins sector in India is highly fragmented with a majority of the share being contributed by the unorganised segment. As a result, MPPL faces intense competitive pressure. Besides, some of the major players in the paints industry have their own captive manufacturing facility for manufacturing of resins.

Alkyd resin is the main product of MPPL; it contributed around 74% of its turnover in FY15 (~80% in FY14). The percentage contribution from alkyd resins has fallen over the last few years on account of higher growth seen in the other segments. Alkyd resins nevertheless have steady demand prospects on account of their price competitiveness with respect to other resins and their versatile applications.

The sales volumes of Alkyd resins declined by ~7% in FY15 while the sales volumes of UF resins and other resins increased considerably. The overall capacity utilization continued to remain at healthy levels at ~90-95% in FY15. The sales realizations for the Alkyd resins have declined in FY15 and in H1FY16 by ~5% and ~14% respectively on account of lower raw materials prices with significant decline in crude prices in the recent past.

Favorable customer profile with majority of the sales coming through repeat customers; decline in export sales

The company's current customer profile mainly includes small to medium scale paint manufacturing companies, which account for approximately 75-80% of the sales with the balance from some large players like Asian Paints Limited and Nippon Paints. With resins being key raw materials in the paint manufacturing process, suppliers are not changed frequently, thereby providing revenue stability to MPPL. This is reflected from the fact that majority of MPPL's sales in the past were through repeat orders. The export sale of MPPL is to the Middle-East, SAARC and African regions.

MPPL derives larger part of its revenues from the domestic market. The share of domestic market sales has increased to ~68% in FY 15 and ~75% in H1FY16 from 58% in FY 14 following healthy demand from Industrial Paint segment particularly from the automotive segment. The contribution of export sales declined and in absolute terms also it was lower in FY15 and in current fiscal over FY14 on account of declining price trend of resins due to which customers preferred buying from the local players in the importing countries to minimize their inventory loss as they need to buy in a bulk (~ 3 to 6 months of requirement) from MPPL.

Vulnerable to any adverse fluctuations in raw material prices and foreign exchange rates

The bulk of the raw materials required for producing resins are petroleum based products, hence exposing the company to price risks associated with the volatile nature of crude oil prices. Toluene and Phthalic Anhydride constitute the major raw materials; with the sharp decline in their prices, their share in the total consumption of raw material has dropped to 34% in FY15 from 45% in FY 14. This has resulted in improvement in the margins for the company during FY15 and H1 FY16. The profitability of the company thus remains exposed to any adverse fluctuations in the raw material prices and the ability to the company to pass the same to its customers in a timely manner.

MPPL also faces forex fluctuation risk as ~45-50% of the raw material requirements are met through imports as well as foreign currency loans. However, the same is partly mitigated on account of natural hedge wherein foreign currency payables are netted off against foreign currency receivables for the exports.

Project implementation risks on account of debt-funded expansion

MPPL has been gradually adding capacity over the last three-four years. After increasing the installed capacity to 15,000 MTPA from 10,000 MTPA from March 2010, it has added certain utilities which further increased its installed capacity to 20,000 MTPA in FY13. During FY14, the company installed a new plant at Moraiya and enhanced its capacity further to 27,200 MTPA.

The company had plans to set up a new manufacturing facility, with an installed capacity of 2000 MTPA at estimated costs of Rs. 25-30 crore (Including land and P&M) in FY15; however the same is now deferred over Q4 FY16 and FY17. The promoters had purchased the land (at 5 km from existing plant in Moraiya) in FY13 for the above project. The term loan of Rs. 10.61 crore has already been sanctioned by State Bank of India for purchase of land, which the company will avail after final sales deed of the land is signed. The company would consider further expansion at this land for installation of plant and machinery over the next 4-5 years in a phased manner depending on the market conditions.

Financial Risk Profile***Operating Income has witnessed marginal de-growth in FY15 due to lower realizations; operating margins have improved on account of considerable reduction in raw material prices***

The company's turnover has been growing at a healthy CAGR of 35% during the four year period from Rs. 42.04 crore in FY 10 to Rs. 141.42 crore in FY 14 mainly driven by higher sales volume with the expansion in the capacity. The operating income however declined marginally by ~3% to Rs. 136.57 crore in FY15 from Rs. 141.42 crore in FY14 on account of decline in sales realizations. MPPL has booked net sales of Rs. 63.67 crore in H1 FY16. The operating margins have improved to 10.38% in FY15 and 12.30% in H1 FY16 from 9.18% in FY14 on account of considerable reduction in raw material prices. The net margins however declined to 3.94% in FY15 from 4.84% in FY14 on account of increase in depreciation charges with change in the accounting policy and foreign exchange losses reported by the company (~Rs. 0.30 crore). The net cash accruals increased from Rs. 8.55 crore in FY14 to Rs. 8.97 crore in FY15. The PAT margins improved to 6.56% for H1FY16 in line with improvement in operating margins and lower interest expenses with reduction in debt.

Improvement in capital structure and comfortable coverage indicators

As on March 31, 2015, of the total debt of Rs. 23.24 crore, working capital borrowings accounted for 58%, term loans accounted for 40% and vehicle loans accounted for 2% of the total debt respectively. The total debt levels have declined as on FY15 end and as on Sept 2015 end on account of scheduled debt repayments and lower working capital borrowings. This coupled with increase in net worth base due to accretion to reserves has resulted in improvement in capital structure as reflected in gearing of 0.87 times of as on 31st March 2015 and 0.65 times as on 30th September 2015 compared to 1.26 times as on 31st March 2014. The coverage indicators of the company remained healthy, with interest coverage at 4.92 times, TD/OPBDITA at 2.13 times and NCA/ Debt at 39% for FY15.

Moderate working capital intensity of operations and adequate liquidity

The working capital intensity of the company remained moderate and has ranged between 15-17% over FY12-FY15. The funds flow from operations remained positive in previous two fiscals and in current fiscal on account of stable working capital requirements and healthy accruals. The free cash flows turned positive in FY15 and in current fiscal in absence of any major capex. The overall liquidity position of the company remains comfortable given the adequate accruals against the debt repayment obligations and moderate utilization of working capital limits, averaging 45% in the past 15 months (Sep 14 – Nov 15).

Prospects

Going forward, ICRA expects MPPL to improve its scale of operations backed by volume growth from increased capacity and improved utilization levels. However, ICRA is of the view that MPPL's profit margins will

remain vulnerable to raw material price fluctuations and high competitive pressures. Any significant deterioration in the profit margins would remain a key rating sensitivity for the company. In addition, the planned debt funded capex in near term is likely to result in incremental debt levels and moderation in the debt coverage indicators. The timely completion of capital expenditure plans, generation of adequate returns from the planned capex and maintenance of healthy credit metrics will remain critical from credit perspective..

Recent Results

For the year FY15, the company reported an operating income of Rs. 136.57 crores and profit after tax of Rs. 5.38 crore as against an operating income of Rs.141.42 crore and profit after tax of Rs 6.85 crore during FY14. In H1 FY16 (provisional unaudited financials), MPPL recorded an operating income of Rs. 63.67 crore and profit after tax of Rs. 4.18 crore.

December 2015

Annexure: Rating

| Instrument | Amount Rated | Rating Action |
|-----------------------------------|---|---|
| Long Term Fund Based- Cash Credit | Rs. 31.50 crores | [ICRA]BBB (Stable); upgraded from [ICRA]BBB- |
| Long Term Fund Based -Term Loans | Rs. 26.34 crore (reduced from Rs. 28.00 crore) | [ICRA]BBB (Stable); upgraded from [ICRA]BBB- |
| Short Term Non-fund Based Limits | Rs. 2.16 crore (Increased from Rs. 0.50 crore) | [ICRA]A3+; upgraded from [ICRA]A3 |

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