January 02, 2017

United Brothers Multiplast LLP

Instrument	Rated Amount (In Crore)	Rating Action
Non Fund Based Limits	6.00	[ICRA]A4; (Reaffirmed)
Fund Based Limits – Cash Credit	7.00	[ICRA]BB-(Stable); (Reaffirmed)
Fund Based Limits – Bill Discounting	40.00	[ICRA]A4; (Reaffirmed)
Total	**53.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced as ICRA double B minus) assigned to the Rs. 7.00 crore Long Term Fund Based Limits of United Brothers Multiplast LLP (UBML). ICRA has also reaffirmed the short term rating of [ICRA]A4 (pronounced as ICRA A four) assigned to Rs. 40.00 crore fund based limits and Rs. 6.00 crore non fund based limits of UBML. The outlook on the long term rating is Stable.

Rationale

The re-affirmation of the ratings continues to take into account United Brothers Multiplast LLP's (UBML) modest scale of operations and financial risk profile characterised by low cash accruals and weak debt-protection metrics and exposure to credit risk given the low networth base of the firm, thus exposing the firm's profitability and overall operations to any instances of bad-debts. Moreover, the ratings also factor in the exposure of the profitability of the firm to interest income from debtors, given the interest spread against the borrowing cost. The ratings also remain constrained by the partnership nature of entity, exposing the firm to risk of capital withdrawals

The ratings, however, continue to draw comfort from the firm's long track record in the polymers distribution business and healthy demand prospects for the polymer products marketed by the firm. ICRA also notes that majority of sales being on commission basis with fixed margins per ton for firm, margins remain largely protected against commodity price movements.

Going forward, the operating income of the company is expected to witness healthy growth on account of expected increased in sales volume. UBML's ability to improve profit margins and manage working cycle effectively would remain important from credit perspective.

Key rating drivers

Credit Strengths

- Long track record as one of the leading distributors of GAIL (India) Limited (GAIL);
- Steady domestic demand prospects for polymers marketed by the firm viz. High Density Polyethylene (HDPE) and Linear Low Density Polyethylene (LLDPE);

Credit Weakness

- Modest scale of operation;
- High customer concentration;
- Credit risk remains key, given any bad debt will have significant impact on the net worth, given the low net worth base of the firm
- Profitability exposed to interest rate fluctuations considering significant interest spread income; ability of the company to pass on any increase in interest rates remains important;
- Risk of capital withdrawal associated on account of being a partnership firm

Description of key rating drivers highlighted above:

The sales made by UBML on behalf of GAIL are not accounted in the firm's financials, as the ownership of the goods is not transferred to the firm. UBML's operating income comprises of the commission on the sale of polymer products as a DCA and interest income on the credit extended to the customers. The firm extends credit to its customers for a period ranging from 30-45 days. Since the interest cost on the working capital borrowings is lower than the interest charged from customers (ranging from 16%-20%), the firm has a potential arbitrage to this extent. However, due to the reduction in bank interest rate, the firm's interest spread has improved as, as current interest cost on working capital borrowings is around 10% - 13%. Nonetheless, as the interest rate on working capital borrowings is based on a floating base rate of the bank, the firm continues to remain exposed to risk of interest rate fluctuations which becomes vulnerable in a scenario of economic slowdown.
The operating income of UBML reported a decline of 7% during FY2015 as compared to FY2014 due to marginal decline in sales volume. In FY2016, the firm reported 18% decline in its operating income at Rs. 2.48 crore mainly on account of shut down of GAIL plant due to capacity expansion. On a provisional basis, the company has reported an operating income of Rs. 1.72 crore during 6MFY17 as the sales volume has shown an increase in FY2017. The operating costs of the firm largely remain the same, the profitability margins hinge on the sales volumes and the net interest income of the firm. Thus, in FY2016, as the commission income as well as interest income declined considerably, the operating margins recorded a decline at 57.18% as compared to 64.03% in FY2015. The net profitability has decreased to 8.61% in FY2016 due to decrease in the operating profit margin. With a fall in net profitability, the return indicators deteriorated during FY2016 with ROCE at 9.84% (FY2015: 14.29%).

Analytical approach:
To arrive at the ratings ICRA has taken into account the standalone financials of the company along with key operational developments in the recent past. The company operates as a standalone entity and doesn't have any subsidiary in place.

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology

About the Company:
United Brothers Multiplast LLP (UBML) erstwhile United Brothers was established as a partnership firm in August 1996 with the object of trading in polymers, plastics and chemicals. Initially, the firm was engaged in the business of import and trading of polymer products like LDPE (Low-density polyethylene), LLDPE (Linear low-density polyethylene), HDPE (High-density polyethylene), PP (Polypropylene), etc. Subsequently in 1997 the firm became a Del Credere Agent (DCA) and consignment stockiest (CS) of GAIL India Limited (GIL) for distribution of polymer products in Western India. Currently the firm is one of the leading DCAs of GAIL and has two warehouses in Bhiwandi (Maharashtra) and Daman for stocking goods.

UBML recorded a net profit of Rs. 0.21 crore on an operating income of Rs. 2.48 crore for the year ending March 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2016	Month- year & Rating in FY2015
				January 2016	November 2016	July 2015	April 2014
1	Cash Credit	Long Term	7.00	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); Suspended	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)
2	Bank Guarantee	Short Term	6.00	[ICRA]A4;	[ICRA]A4; Suspended	[ICRA]A4	[ICRA]A4
3	Bill Discounting	Short Term	40.00	[ICRA]A4	[ICRA]A4; Suspended	[ICRA]A4	[ICRA]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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	7.00	[ICRA]BB- (Stable)
Bill Discounting	-	-	-	40.00	[ICRA]A4
Bank Guarantee	-	-	-	6.00	[ICRA]A4

Source: United Brothers Multiplast LLP

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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.

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