

March 10, 2017

STP Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long-term Fund-based – Cash credit	24.00	Upgraded to [ICRA]B (stable) from [ICRA]B-
Long-term Non-fund based	2.00	Upgraded to [ICRA]B (stable) from [ICRA]B-
Short-term Non-fund based	9.00	Reaffirmed at [ICRA]A4
Total	35.00	

*Instrument details are provided in the Annexure

Rating action

ICRA has upgraded its long-term rating to [ICRA]B (pronounced ICRA B) from [ICRA]B- (pronounced ICRA B minus) on the Rs. 24.00-crore fund-based and Rs. 2.00-crore non-fund based bank facilities of STP Limited (STPL)†. ICRA has also reaffirmed its short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 9.00-crore non-fund based bank facilities of STPL. The outlook on the long-term rating is 'Stable'.

Detailed Rationale

ICRA's rating action takes into account the improvement in the operating profit margin of the company in FY2016 owing to the increased share of margin-accretive products in the sales mix, which supported the net cash accruals of the company. An improvement in the operating profit margin coupled with a moderation in the working capital intensity resulted in the improvement in the debt protection metrics. Further, ICRA noted that, the consistent financial support from the parent company has been keeping the liquidity profile under check.

ICRA's ratings are, however, constrained by continued under-utilisation of the plant capacity and under-absorption of fixed overheads in the past few years, which have kept the return indicators at low levels. Despite marginal improvement in the profitability and moderation in the working capital intensity in FY2016, the overall financial profile remained weak with high utilisation of working capital borrowings, leveraged capital structure and subdued coverage indicators.

The company's ability to increase the sales and improve its profitability in a sustained manner to reduce the dependence on external funding will be the key rating sensitivity. Timely funding support from the holding company to meet the interim funding requirements will also be closely monitored.

† For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key Rating Drivers

Credit Strengths

- Extensive experience of the promoters in the business
- Gradual improvement in the profitability in the past which supported the net cash accruals in FY2016
- Demonstrated support of the promoters in terms of timely infusion of funds into the company
- Demand of construction chemical is expected to improve in the near-medium term owing to the Government's pledge on spending on infrastructure especially in the road sector

Credit Weaknesses

- Sub-optimal utilisation of plant capacity leading to under absorption of the overheads in the past and resulting in net losses
- High working capital intensity owing to elevated inventory holding requirements and often stretched receivable collection period
- Product portfolio belongs to cyclical industry, demands of which are dependent on the performance of infrastructure, real estate, and construction segment. Sluggish performance of these industries have quelled the demand of bitumen and tar-coal based products
- The company hedges ~30% of the foreign exchange exposure of the imports from Russia; however, major chunk still remains unhedged.

Detailed description of key rating drivers:

STP Limited manufactures waterproofing chemicals, anti-corrosion coating, sealant and other construction chemicals etc. from its factories in five states namely Tamil Nadu, West Bengal, Uttar Pradesh, Goa, and Jharkhand. The company supplies these products to various infrastructure and construction companies through intermediaries.

The promoters of the company have extensive experience in this line of business. The company's focus on operating margin-accretive products in the past couple of years has resulted in an improvement in the operating profit margins. Further, the company has been able to negotiate favourable credit terms with its key customers as well as suppliers which kept the working capital intensity at ~26% as on March 31, 2016 compared to ~34% in the previous year. The company's net cash accruals also increased from a cash loss of Rs 0.61 crore to a cash profit of Rs 1.43 crore in FY2016. The holding company of STPL namely Turner Morrison Limited has supported the company by infusing funds as and when required; however, the dependence of STPL on its holding company reduced in FY2016.

Under-absorption of fixed overheads resulting from sub-optimal plant capacity utilisation in the past has kept the return indicators at low levels. The operating profits margin of the company has increased in FY2016 compared to the previous year, but debt coverage indicators remained tepid owing to high interest expenses. The liquidity level of STPL remained subdued due to high working capital intensity led by stretched debtor collection period and requirement of keeping high level of inventory of different SKUs¹.

Analytical approach: Standalone. However, financial support from its parent company has been taken into consideration.

¹ SKUs denotes stock keeping units

Links to applicable criteria:

Corporate Credit Rating –A Note on Methodology
Rating methodology for chemical industry

About the company:

Incorporated in 1935, STPL is a part of the Turner Morrison group, and is engaged in the manufacture and supply of waterproofing products, corrosion protection products, and construction chemicals. The company has its manufacturing facilities in Chennai (Tamil Nadu), Goa, Jamshedpur (Jharkhand), Kosi (Uttar Pradesh) and Sipaigachi (West Bengal).

STPL reported an operating income (OI) of Rs. 130.64 crore and a net loss of Rs. 1.29 crore in FY2016 as compared to an OI of Rs 129.74 crore and a net loss of Rs 4.07 crore in the previous year.

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 (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				March 2017	Feb 2016	Feb 2015	NA
1	Cash Credit	Long Term	24.00				
				[ICRA]B (stable)	[ICRA]B-	[ICRA]B-	NA
2	Non fund-based	Long Term	2.00	[ICRA]B (stable)	[ICRA]B-	[ICRA]B-	NA
3	Non fund-based	Short Term	9.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	NA

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	-	-	-	24.00	[ICRA]B (stable)
Long-term Non fund-based	-	-	-	2.00	[ICRA]B (stable)
Short-term Non Fund-based	-	-	-	9.00	[ICRA]A4

Name and Contact Details of the Rating Analyst(s):

Mr.Sabyasachi Majumdar
+91-124-4545304
Sabyasachi@icraindia.com

Mr.Manish Ballabh
+91-124-4545812
Manish.ballabh@icraindia.com

Mr. Amit Arora
+91-124-4545 318
amita@icraindia.com

Mr. Shubham Goyal
+91-124-4545 386
shubham.goyal@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. Jayanta Chatterjee, (Tel. No. +91-80-43326401)
jayantac@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**](http://www.icra.in)

© Copyright, 2017, 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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500