

March 30, 2017

Dugar Polymers Limited

Instrument*	Rated Amount (in Rs crore)	Rating Action
Fund Based Limits	35.59 (revised from 31.70)	[ICRA]BB- (Stable) / Reaffirmed
Non Fund Based Limits	5.50 (revised from 7.00)	[ICRA]A4/ Reaffirmed
Unallocated Limits	0.91 (revised from 3.30)	[ICRA]BB- (Stable) / Reaffirmed

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BB- (pronounced ICRA double B minus) assigned to the Rs 35.59 crore¹ (revised from Rs 31.70 crore) fund based limits and to the Rs 0.91 crore (revised from Rs 3.30 crore) unallocated limits of Dugar Polymers Limited (DPL)². ICRA has also reaffirmed the short term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs 5.50 crore (revised from Rs 7.00 crore) non fund based limits of DPL. The outlook on the long term rating is Stable.

Rationale

The reaffirmation of ratings continues to be constrained by the high working capital intensity of the business on account of high inventory and receivable levels; vulnerability of profits to raw material price fluctuations (primarily crude derivatives) with limited ability to pass on the price increase and exposure to counter party credit risk with default on payments is borne by DPL being the DCA/CS (Del Credere Agent/Consignment Stockiest) agent for IOCL. Moreover, high funding requirements arising out of its working capital intensive businesses (both manufacturing and agency operations) has resulted in a stretched financial profile as reflected in gearing of 2.88 times as on 31st March 2016 and moderate coverage indicators. The ratings, however, positively factor in extensive experience of the promoters in the PP/HDPE/PVC pipes, sheets and rods manufacturing business; diversified product portfolio; and established relationships with key customers in the industry. The rating also factors in established relationship with IOCL as a Del Credere Agent (DCA) for Telangana and Andhra Pradesh states.

Going forward, the company's ability to maintain the profitability levels and managing working capital requirements will remain key rating sensitivities from credit perspective.

Key rating drivers

Credit Strengths

- Extensive experience of the promoters in the PP/HDPE/PVC pipes, sheets and rods manufacturing business
- Diversified product portfolio with established relationships with key customers in the industry
- Established relationship with IOCL as a Del Credere Agent (DCA) for Telangana and Andhra Pradesh states

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit Weakness

- High working capital intensity of the business on account of high inventory and receivable levels
- Vulnerability of profits to raw material price fluctuations (primarily crude derivatives) with limited ability to pass on the price increase
- Leveraged capital structure as reflected in gearing of 2.88 times as on March 31, 2016, given the working capital intensive nature of operations
- Exposure to counter party credit risk with default on payments is borne by DPL for being DCA/CS agent for IOCL

Description of key rating drivers highlighted above:

DPL currently operates through two divisions—manufacturing division, which produces plastic sheets and rods of Polypropylene (PP) or Polyethylene (PE), and agency division, which operates a DCA and CS of IOCL for Andhra Pradesh and Telangana states. The company has a wide customer base in manufacturing and DCA/CS operations. The clientele also features many repeat customers, which indicates the healthy relationship enjoyed by DPL with its customers. There has been steady increase in operating income by 8% from Rs 60.01 to Rs 64.68 in FY2016.

The receivables of the company are high over the years which has resulted in high working capital intensity of the business. DPL sources raw materials through imports and domestic purchases. The profits are exposed to raw material price fluctuations majorly crude oil derivatives and the company has limited ability to pass on the price increase. The debt profile of the company majorly consists of high working capital facilities from banks which has stretched the capital structure resulting into high gearing of 2.88 times as on March 31, 2016. In DCA/CS business the collection of receivables is borne by the agent and the agent is exposed to credit risk of default of payments.

Analytical approach:**Links to applicable Criteria****Corporate Credit Rating –A Note on Methodology**

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company:

Incorporated in 2003, Dugar Polymers Limited (DPL) is a manufacturer of plastic rods, sheets and PVC compound. The Company caters to customers throughout the country and operates through three manufacturing units located at Silvassa and Surat. DPL also functions as a DCA (Del Credere Agent) for IOCL with respect to sale of polymer products in the state of Andhra Pradesh and Telangana. The company commenced manufacturing operations during the year 2004 and the agency division commenced operations from the year 2011. The company is managed by Mr. Manoj Dugar and Mr. Rajesh Dugar who have more than 15 years experience in the polymer industry.

In FY2016, DPL reported net profit of Rs. 1.03 crore on operating income of Rs. 64.68 crore as against net profit of Rs. 0.77 crore on operating income of Rs. 60.01 crore during FY2015.

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. Crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				March 2017	February 2016	September 2014	February 2013
1	Fund Based Limits	Long Term	35.59	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+	[ICRA]B+
2	Non Fund Based Limits	Short Term	5.50	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Unallocated Limits	Long Term	0.91	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+	[ICRA]B+

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	-	-	-	33.00	[ICRA]BB- (Stable)
Term Loan 1	-	-	March 2022	1.63	[ICRA]BB- (Stable)
Term Loan 2	-	-	September 2022	0.96	[ICRA]BB- (Stable)
Bank Guarantee	-	-	-	5.50	[ICRA]A4
Unallocated Limits	-	-	-	0.91	[ICRA]BB- (Stable)

Source: Dugar Polymers Limited.

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About ICRA Limited:

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