

Megaton Polypack

April 23, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	4.50	[ICRA]B+ (Stable); Assigned
Fund-based - Cash Credit	1.50	[ICRA]B+ (Stable); Assigned
Total	6.00	

Rating action

ICRA has assigned a long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 4.50-crore¹ term loan facility and the Rs. 1.50-crore cash credit facility of Megaton Polypack (MP or the firm)². The outlook on the long-term rating is Stable.

Rationale

The assigned rating favourably factors in the experience of key promoters in the polypropylene (PP) woven fabric industry and the fiscal incentives to be received by the firm from the Government.

The rating, however, remains constrained by the small envisaged scale of operations and risk associated with the stabilisation of the plant as per the expected operating parameters. Furthermore, the assigned rating also takes into account the firm's financial profile, which is expected to remain average in the near to medium term, given the debt-funded nature of the project and the impending debt repayments. The rating is, moreover, constrained by the intense competition and vulnerability of its profitability to adverse movements in key raw material prices.

Outlook: Stable

ICRA believes that Megaton Polypack will benefit from the experience of its promoters. The outlook may be revised to Positive if stabilisation of operations leads to substantial growth in revenue and profitability, or reduction in debt levels, or improvement in its net-worth base strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if there are significant capital withdrawals, or if any major debt-funded capital expenditure, or a stretch in the working capital cycle, weakens its liquidity.

Key rating drivers

Credit strengths

Experience of promoters in the PP woven fabric industry - The key promoters, Mr. Dayarambhai R. Dadhaniya and Mr. Niraj D. Dadhaniya have extensive experience in the field of PP woven fabric manufacturing.

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

Fiscal benefits of capital and interest subsidy from the Government - The firm is eligible to receive interest subsidy and capital subsidy under the Assistance of Capital and Interest Subsidy for Micro, Small and Medium Enterprises (MSMEs) by Gujarat Government under New Industrial Policy for 2015. The firm is also eligible to receive a one-time subsidy from the Central Government under the Revised Restructure Technology Upgradation Fund (RR_TUF) scheme. These incentives would support the overall returns from the project.

Credit challenges

Small scale and limited track record of the firm's operations - The commercial operations for Megaton Polypack commenced from March 2017. The scale of operations for the firm remains small with revenues of Rs. 0.61 crore for FY2017 (~1 month of operations) and Rs. 11.09 crore for 11M FY2018. The firm remains exposed to the risks associated with stabilisation and successful scale up of operations of the plant as per expected parameters.

Average financial risk profile - The financial risk profile of the firm remains average, with a small net-worth base and an estimated gearing level of ~1.63 times as on March 31, 2018. Further, the profitability margins of the firm are modest on account of the intense competition in the PP woven fabric business. The debt protection metrics for the firm remain average, because of moderate profitability and debt funded capex.

Intense competition - The competitive intensity of the PP woven fabric industry remains high with a large number of players in the small and medium scale categories. The competition is further intensified due to a large number of unorganised players along with low capital investment and limited entry barriers in the industry.

Profitability to remain susceptible to volatility in raw material prices - PP is a derivative of crude oil, which is a volatile commodity. The prices of PP mirror the crude oil prices to some extent and hence the profitability of the firm remains exposed to any adverse fluctuations in crude oil prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the firm:

Megaton Polypack was established as a partnership firm in 2016. It is promoted by Mr. Dayarambhai R. Dadhaniya and family. The key promoters, Mr. Dayarambhai Dadhaniya and Mr. Niraj Dadhaniya, have extensive experience in the PP woven fabric industry. The commercial operations of the firm commenced from March 2017. The firm manufactures PP woven fabric, woven sacks, woven bags, etc, used in the packaging of cement, pharmaceuticals, fertiliser, chemicals, food grains, salt and animal feed, among others. The firm has a manufacturing capacity of 3,240 MT of PP woven fabric per annum.

Key financial indicators (audited)

The commercial operations for the firm began in March 2017 (1 month of operations for FY2017).

	FY2017
Operating Income (Rs. crore)	0.61
PAT (Rs. crore)	(0.51)
OPBDIT/ OI (%)	21.54%
RoCE (%)	-
Total Debt/ TNW (times)	1.93
Total Debt/ OPBDITA (times)	3.66
Interest Coverage (times)	0.97
NWC/ OI (%)	24%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					April 2018		
1	Term Loan	4.50	3.83*	[ICRA]B+ (Stable)	-	-	-
2	Cash Credit	1.50	-	[ICRA]B+ (Stable)	-	-	-

* As on February 28, 2018

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	-	FY2022/23	4.50	[ICRA]B+ (Stable)
NA	Cash Credit	-	-	-	1.50	[ICRA]B+ (Stable)

Source: Megaton Polypack

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