March 26, 2020

Godavari Polymers Private Limited: Ratings revised

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Cash Credit	35.00	35.00	Revised to [ICRA]BB(Stable) from [ICRA]BB+(Stable)
Fund-based- Term Loan	14.72	10.17	Revised to [ICRA]BB(Stable) from [ICRA]BB+(Stable)
Non-fund-based limits	60.00	58.00	Revised to [ICRA]A4 from [ICRA]A4+
Unallocated limits	11.08	17.63	Revised to [ICRA]BB(Stable) from [ICRA]BB+(Stable)
Total	**120.80**	**120.80**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in ratings factors in Godavari Polymers Private Limited's (GPPL) stretched liquidity position as reflected by high utilisation of 97-100% of the sanctioned limits owing to increased receivables and high work-in-progress inventory. The ratings are constrained by its moderate financial profile with decline in revenues by 13% in FY2019, which is further expected to witness a reduction by 15-20% in the current year on account of decrease in income from Institutional Government Projects (IGP) and micro-irrigation segments. Decline in revenues and stretched receivables resulted in higher debt and moderation in coverage indicators. Further, the company has high dependence on outside funds as reflected by high TOL/TNW of 3.3 times as on March 31, 2019. The ratings are further, constrained by the limited order book visibility over the long term with no new orders received in the recent year. Moreover, most of its orders from Mission Bhagiratha are near completion. The ratings consider the exposure of its margins to fluctuations in raw material prices, limited value addition in the pipe manufacturing business and the intense competition in the industry. ICRA notes the high geographical concentration of sales in Telangana and Andhra Pradesh for IGP and micro-irrigation systems (MIS) segments.

The ratings, however, derive comfort from GPPL's extensive experience in the industry and its established brand presence across six states in India as re-distribution stockiest (RDS) with network of around 3,560 dealers. The ratings consider the diversified mix of revenues from RDS network, MIS and IGP segments, minimising the risk related to any segment's downturn.

The Stable outlook on the [ICRA]BB rating reflects ICRA's belief that the company will continue to benefit from the extensive experience of its promoters in manufacturing of pipe and related components industry and the established brand name of Godavari in HDPE pipe and MIS segment.

Key rating drivers and their description

Credit strengths

Significant experience in polymer processing business and established brand name – The company's promoters have more than 25 years of experience in the pipe manufacturing business, resulting in a reputed customer base. Moreover, GPPL has an established brand name for HDPE pipes and MIS.

Diversified mix of revenues – The company has a diversified mix of revenues from the RDS network, micro-irrigation systems and IGP projects, minimising the risk related to any segment-specific downturn.

Widespread distribution network – Over the years, GPPL has built an extensive distribution network of over 3,560 dealers in the rural and semi-urban areas across six states in India for selling its products and is expanding its presence in the other states.

Credit challenges

Stretched liquidity position as reflected by high utilisation in working capital requirements – The company's liquidity position is stretched as reflected by high utilisation of 97-100% of the sanctioned limits owing to increased receivables and high work-in-progress inventory. GPPL stretched its creditors to meet its working capital requirements; ~44% of payables are against LCs and utilisation of LC limits remained high at 83% (Rs. 30 crore as on December 31, 2019).

Weakened financial profile – The company's financial profile declined in FY2019 owing to lower revenues and stretched working capital cycle. Revenues declined by 13% owing to lower orders in IGP segment and delays in the execution of the existing orders. Its revenues are likely to decrease by 15-20% on account reduced income from IGP and micro-irrigation segments. Decline in revenues and stretched receivables resulted in higher debt and moderation in coverage indicators with interest coverage of 1.9 times, TD/OPBDITA of 2.8 times and DCSR of 1.2 times for FY2019. Its coverage indicators are expected to moderate further in FY2020.

Limited order book visibility over long term – The company had an outstanding order book of Rs. 57.5 crore as on December 31, 2019, including IGP and MIS segments, which provides only near-term revenue visibility and it is dependent on new orders for revenue growth over the medium term. Consistent growth in RDS network is expected to support revenue growth to an extent.

High dependence on outside funds – GPPL is highly dependent on outside funds (bank facilities and creditors) for its working capital requirement as reflected in TOL/TNW of 3.3 times as on March 31, 2019.

High geographical concentration – The company has high geographical concentration as IGP and MIS segments, which accounted for 46% of its revenues in FY2019 and 23% in 9M FY2020, are mainly concentrated in Telangana and Andhra Pradesh. However, GPPL has geographically diversified its RDS network across six states in India and is further expanding its MIS segment base to other states such as Tamil Nadu.

Profitability indicators exposed to volatility in raw material prices – The company's revenues and margins are exposed to price fluctuations of key raw materials such as PVC resin and HDPE/LDPE granules. Any adverse movement in the price of raw materials could have an adverse impact on its margins, considering the limited value addition and stiff highly competition in the industry.

Liquidity position: Stretched

GPPL's liquidity is **stretched** with high repayment obligations of Rs. 4-5 crore and low free cash balances of ~Rs. 1.0 crore, while the buffer in working capital limits is minimal, given the high utilisation of 97-100%. Stretched receivables and high inventory holding has impacted its liquidity position. The company has been stretching its creditors to meet its working capital requirements. Its LC utilisation remained high at Rs. 30 crore as on December 31, 2019.

Rating sensitivities

Positive triggers – ICRA could upgrade GPPL's rating if sustained growth and better working capital management improves its liquidity and the overall credit metrics. Specific credit metrics which may lead to rating upgrade include DSCR of over 1.2 times on a sustained basis.

Negative triggers – Negative pressure on GPPL's rating could arise if any further decline in revenues or profitability impacts its financial profile or increase in receivable and inventory levels impacts its liquidity position further.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

GPPL was incorporated in August 1990 as a private limited company and is involved in manufacturing of high-density polyethylene (HDPE) pipes, sprinkler irrigation systems, drip irrigation systems and PVC pipes. The company has two manufacturing units with aggregate installed capacity of 24,390 MT per annum with one unit at IDA Cherlapally, Hyderabad and the other at Shadnagar of Ranga Reddy district.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	311.6	272.1
PAT (Rs. crore)	2.8	3.9
OPBDIT/ OI (%)	6.4%	6.7%
RoCE (%)	18.6%	15.6%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	3.3
Total Debt/ OPBDIT (times)	2.3	2.8
Interest Coverage (times)	1.7	1.9
DSCR	1.3	1.2

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 26, 2020	Date & Rating in FY2019 January 04, 2019	Date & Rating in FY2018 August 11, 2017	Date & Rating in FY2017 March 21, 2017
1	Cash Credit	Long Term	35.00	-	[ICRA]BB(Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	Term Loan	Long Term	10.17	10.17	[ICRA]BB(Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
3	Letter of Credit	Short Term	38.00	-	[ICRA]A4	[ICRA]A4+	[ICRA]A3	[ICRA]A4+
4	Bank Guarantee	Short Term	19.00	-	[ICRA]A4	[ICRA]A4+	[ICRA]A3	[ICRA]A4+
5	Derivate	Short Term	1.00	-	[ICRA]A4	[ICRA]A4+	-	-
6	Unallocated	Long Term	17.63	-	[ICRA]BB(Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)

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	Cash Credit	-	-	-	35.00	[ICRA]BB(Stable)
NA	Term Loan-1	March,2015	-	December,2021	5.17	[ICRA]BB(Stable)
NA	Term Loan-2	March,2018	-	January,2023	5.00	[ICRA]BB(Stable)
NA	Letter of Credit	-	-	-	38.00	[ICRA]A4
NA	Bank Guarantee	-	-	-	19.00	[ICRA]A4
NA	Derivate	-	-	-	1.00	[ICRA]A4
NA	Unallocated	-	-	-	17.63	[ICRA]BB(Stable)

Source: GPPL

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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.

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