Shyam Agency Pvt. Ltd.

April 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term; fund-based facilities	(1.00)	(1.00)	[ICRA]BB+(S) (Stable); Reaffirmed
Short-term; non-fund based facilities	6.00	6.00	[ICRA]A4+ (S); Reaffirmed
Total	**6.00**	**6.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]BB+ (S) (pronounced ICRA double B plus S) assigned to the Rs. 1.00-crore fund-based (sub limit of non-fund based facilities) of Shyam Agency Pvt. Ltd. (SAPL or the company)[1]. ICRA has also reaffirmed a short-term rating of [ICRA]A4+ (S) (pronounced ICRA A four plus S) to the Rs. 6.00-crore[2] to the non-fund based facilities SAPL. The outlook on the long-term rating is Stable. The letter 'S' in parenthesis suffixed to a rating symbol denotes that the rating is supported by a letter of comfort (LOC).

Rationale

The rating reaffirmation draws comfort from SAPL being a part of the Shyam Group of companies, which has a long track record and established presence in polymer trading industry. The ratings also consider the letter of comfort extended by Tarajyot Polymers Limited (TPL) (rated [ICRA]BBB (Stable)/ [ICRA]A3+) to SAPL. ICRA also draws comfort from the operational linkages of SAPL with other Group entities including TPL and established relationship of Group with customers and global suppliers.

The ratings also factor in the healthy sales from trading of export incentives (scrips) segment in FY2018, which has supported the revenue growth during the fiscal, although the revenues from polymer trading remained subdued during the same period. ICRA also notes that the initiatives taken up by the Government of India to provide incentives in the form of duty scrips to the exporters to promote more exports will support scrips trading, since these scrips are easily transferable. The ratings also consider the high demand for all types of polymers from end-user industries such as automobile, FMCG, and construction.

The ratings are, however, constrained by the modest scale of SAPL's business and its limited track record with resumption of operations only since November, 2015. The low profitability and weak coverage metrics due to the trading nature of its business and susceptibility of its volume to demand volatility besides the exposure of the company's margins to fluctuations in raw material prices and foreign exchange rates also remain the key rating concerns. In FY2017, SAPL's revenue witnessed moderation due to the impact of demonetisation on polymer trading sales. However**,** while the revenue from polymer segment is likely to remain subdued in the current fiscal due to demand impacted by uncertainties related to GST implementation, the overall revenue is expected to witness growth as the company has commenced trading of export incentive scrips, although the margin accretion will be limited due to thin profit margins. The sustainability of the sales and margin of the incentive scrip trading remains to be seen. ICRA also notes that the long-

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

[2] *100 lakh = 1 crore = 10 million*

term demand outlook for all types of polymers in India remains healthy, backed by growth in end-user industries such as automobiles and FMCG.

Outlook: Stable

ICRA expects SAPL's operations to continue to benefit from support from the Shyam Group of companies. The outlook may be revised to a Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, or if any major capital expenditure, adverse fluctuations in polymer prices, and stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Part of Shyam Group of companies with extensive experience in the polymer trading industry - Incorporated in 2005, SAPL is a part of the Shyam Group of companies having over three decades of track record in the trading of petrochemicals and polymers. SAPL benefits from the established relationship of the Group with its customers and global suppliers and from operational linkages with flagship entities of the Group like TPL. TPL has also extended a letter of comfort to SAPL.

Favourable long-term demand for polymers; import dependence expected to continue - SAPL's polymer trading segment was adversely impacted in FY2017 due to the impact of demonetisation and is likely to remain subdued in the current fiscal due to the impact on demand from uncertainties related to GST implementation. However, ICRA notes that the long-term domestic demand outlook remains favourable and is expected to be sustained by increased demand from end-user industries such as automobiles, FMCG, and construction etc. Further, with the domestic supply still lagging demand, the demand for imported polymers is likely to remain healthy, despite import duties.

Trading in export incentive scrips to provide diversification benefits - The company has commenced the trading of export-incentive scrips, issued by the Government[3], which the company mainly procures through brokers and sells at modest margin to customers/brokers. While the segment is likely to provide diversification benefits, the sustainability of revenue and profits from the segment remains to be seen.

Modest working capital intensity - SAPL's working capital intensity remained modest, with a NWC/OI of 2% in FY2017. The company imports polymers on a 90-150 days usance basis, while it extends a maximum credit period of ~60-90 days to its customers. On the other hand, the export-incentive scrips are primarily procured on a cash basis and 0-15 days of credit is extended to customers.

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[3]. In order to boost exports from the country, Government of India provides incentives in the form of duty scrips, which can be used for the payment of custom duties, anti-dumping duties and other duties and taxes etc. These scrips are transferable within the validity period prescribed for such incentives.

Credit challenges

Small scale of operations - The company has small scale of operations. Although SAPL was incorporated in FY2005, it commenced operations in polymer trading in FY2016. It witnessed modest improvement in revenue in FY2017, with an operating income (OI) of Rs. 17.5 crore (PY Rs. 12.9 crore). SAPL witnessed demand slowdown in H2 FY2017 due to demonetisation, which resulted in a subdued revenue growth during the fiscal. The revenue growth from polymer trading segment has remained muted in FY2018, however, the income from trading of export incentives (duty scrips) is likely to drive revenue growth in FY2018.

Low profitability levels and modest coverage indicators - Due to the low value-added nature of the trading operations, the company's profitability has been modest since the commencement of its operations. SAPL's operating profit margin further witnessed moderation in FY2017 mainly as it had to provide additional discounts to the customers for enhancing the customer base. It witnessed a decline in its OPM and NPM to 1.1% and 0.6% in FY2017 from 6.1% and 0.9% in FY2016. The coverage indicators have also been modest with interest coverage of 1.2 times in FY017 (PY 1.3 times).

Leveraged capital structure - SAPL's capital structure is leveraged with a gearing of 1.6 times as on March 31, 2017 compared to 1.0 times as on March 31, 2016. While the company mainly uses LC for importing polymers, it also uses fund-based facilities comprising inter corporate loans for its working capital requirements. The coverage indicators have also been stretched with its interest coverage and TD/OPBDITA at 1.2 times and 21.3 times in FY2017 compared to 1.3 times and 3.1 times in FY2016. The TOL/TNW also remained high at 3.7 times as on March, 2017 compared to 3.9 times as on March, 2016. Its margin money requirements for LC borrowings are fixed at 20% for the sanctioned limits. Any additional borrowing over and above the limit is covered with 100% margin.

Profitability susceptible to volatility in raw material prices, forex rates and changes in Government policies - SAPL's margins are also susceptible to fluctuations in polymer prices and exchange rates. However, it hedges its receivables and the hedging cost is captured in the final pricing, which partly mitigates the risk. Further, the company's performance is also susceptible to changes in Government policies, especially pertaining to the duty structure.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Rating methodology for trading company]

About the company:

Incorporated in 2005, SAPL is a part of the Shyam Group of companies and operates out of Bangalore, Karnataka. Although company was established in 2005, it has no operations prior to FY2015. It commenced operations in FY2016. SAPL is involved in the import and trading of different types of polymers that are by-products of crude oil, which includes low-density polyethylene (LDPE), high-density polyethylene (HDPE), linear low-density polyethylene (LLDPE) fillers, poly vinyl chloride (PVC), polypropylene, etc through high seas sales. It imports polymer granules from various global majors like Daewoo, LG Chem and trades it in the domestic market primarily on high-seas basis. In FY2018, the company commenced operations in the export-incentive scrips trading segment.

The Shyam Group of companies has footprints in diverse businesses such as polymer processing and trading, non-banking financing activities and trading. In traces its roots to the business set up by Mr. Ram Awtar Ramsisaria in 1986 in Kolkata. The Group shifted its operational base to Bangalore during the 1990's and started trading in plastic granules through different entities. Since then, the Group has expanded its operations by several folds and at present includes multiple trading and investment companies.

In FY2017, the company reported a net profit of Rs. 0.10 crore on an operating income (OI) of Rs. 17.53 crore, as compared to a net profit of Rs. 0.11 crore on an OI of Rs. 12.91 crore in the previous year.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	12.9	17.5
PAT (Rs. crore)	0.1	0.1
OPBDIT/ OI (%)	6.1%	1.1%
RoCE (%)	22.2%	11.3%
Total Debt/ TNW (times)	1.0	1.6
Total Debt/ OPBDIT (times)	3.1	21.3
Interest Coverage (times)	1.3	1.2
NWC/ OI (%)	-40%	2%

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 Apr 2018	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 -	Date & Rating in FY2015 -
1	Cash Credit	Long Term	(1.00)	**(1.00)**	**[ICRA]BB+ (S) (Stable)**	**[ICRA]BB+ (S) (Stable)**	-	-
2	Non-fund based facilities	Short Term	6.00	**6.00**	**[ICRA]A4+ (S)**	**[ICRA]A4+ (S)**	-	-

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*	-	-	-	(1.00)	[ICRA]BB+ (S) (Stable)
NA	Non-fund Based facilities	-	-	-	6.00	[ICRA]A4+ (S)

* Cash Credit of Rs. 1 crore is a sub-limit of Cash Credit of Rs. 6crore

Source: Shyam Agency Pvt. Ltd.

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About ICRA Limited:

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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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