Rating Rationale

Brickwork Ratings reaffirms the rating 'BWR BB' /Stable & 'BWR A4+' for Ace Polyplast Pvt Ltd's Bank Loan Facilities of ₹ 25 Cr

Brickwork Ratings (BWR) has reaffirmed **BWR BB (Stable)** (Pronounced Double "B" with "Stable" Outlook) and **BWR A4+** (pronounced "A" four plus) **Rating**[1] for **Ace Polyplast Pvt Ltd.'s** ("APPL" or "the Company") bank facilities of ₹ 25 Crores.

Facility	Limits (₹Cr)	Tenure	Rating
Fund Based (FB)			
Cash Credit (Sub Limit of LC)	(2.00)	Long Term	**BWR BB** (Pronounced BWR Double B) **(Outlook -Stable)**
WCDL (Sub Limit of CC)	(2.00)		
Non – Fund Based (NFB)			
Letter of Credit	25.00	Short Term	**BWR A4+** (Pronounced BWR A Four Plus)
Buyers Credit (Sub Limit of LC)	(10.00)		
Total Limits	**25.00**	**(INR Twenty - Five Crores only)**	

The rating takes into account stagnant year – on – year growth. The rating continues to factor, inter alia, more than four decades of promoters' experience in the industry, strong demand for PVC resin in the domestic market, stable revenues from its associate companies over last three years and strong capital structure. However, the rating remains constrained by low profit margins on account the trading nature of the business and the products being sold to its associate company, Company's working-capital-intensive operations and high customer concentration.

Background

Ace Polyplast Pvt Ltd (APPL) was incorporated in the year 2007; however it began its business in FY11. APPL is a part of Prince Group and is engaged in trading activity of importing PVC resin, CPVC, PP and PPR and selling it in domestic market. APPL has leased a warehouse at R.K. Puram, Bhadrabad, Haridwar, which is owned by one of its promoters Mr. Jayant Chheda. APPL is selling a significant portion of imports to its associate company Prince Pipes and Fittings Ltd. (PPFL), an ISO-9001:2000 Company which manufactures PVC Pipes & Fittings, PPR Pipes &

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

Fittings, CPVC Pipes & Fittings etc. It has manufacturing facilities at five places in India – Dadra, Athal, Chennai, Kolhapur and Haridwar.

APPL converted its unsecured loans of Rs. 2.53 Crores from its promoters, to equity shares, making the Company virtually debt – free. BWR had considered this loan as quasi equity as part of its initial rating process of the Company.

Shareholding Pattern

Name of the shareholders	% of Shareholding in FY12	% of Shareholding in FY13
Mr. Parag Jayant Chheda	74.00%	35.88
Mr. Jayant Shamji Chheda	16.16%	12.39
Mr. Vipul Jayant Chheda	9.85%	22.29
Mrs Heena Parag Chheda		29.44

Operations

APPL started its operations of importing raw material in FY 11. APPL imports PVC resin, CPVC, PP and PPR from suppliers based in Republic of Korea, Japan and European community and is mainly meeting a portion of the requirements of its associate company's (PPFL) plant in Haridwar. Though the raw material requirement of PPFL is high and can purchase more from APPL, however on account of working capital intensive nature of import activity, APPL has to depend on Letter of Credit limit. In FY13, APPL's customers other than PPFL contributed around 12% of total sales as compared to 5% in FY12. Dependence on few customers gives rise to concentration risk, which can adversely affect the sales if these customers find it uneconomical to continue with the existing arrangement with APPL in future.

Financial Performance

The Company is currently debt-free, post conversion of unsecured loans from promoters to equity. Consequently, Debt/networth ratio reduced to 0 in FY13 from 4.82x in FY12. Also, Interest coverage ratio improved significantly from 1.94x in FY12 to 2.94x in FY13. Operating margin and PAT margin remained flat at 1.98% and 0.98% in FY13 as compared to 1.88% and 0.69% in FY12 on account of low growth in operating revenues. Cash conversion cycle increased on account of increase in receivable days due to increase in proportion of customers other than Prince Pipes and also, Operating revenue increased at a low rate of 1.95% in FY13 to Rs. 42.25 Crores from Rs. 41.44 Crores in FY12 mainly because of flat volumes on account of unavailability of proposed additional bank facilities. Operating profit increased marginally, to Rs. 0.84 Crore in FY13 as compared to Rs. 0.78 Crore in FY12. However, net profit increased considerably, to

Rs. 0.42 Crore in FY13 as compared to Rs. 0.29 Crore in FY12, mainly on account of decrease in Interest and finance charges. Interest and finance charges include bank commission &charges and exchange rate difference.

Rating Outlook

APPL's stable revenue growth is backed by increase in purchases by its associate firm PPFL. However, concentration of sales to a single customer increases customer concentration risk of the Company. Its ability to adopt appropriate strategies for diversifying its customer base, mitigating foreign exchange risk and increasing scale of operations while maintaining PAT margins at appropriate levels would be vital for its performance.

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