

Miku Polymers & Plastics Limited (Erstwhile Miku Traders)

Brickwork Ratings revises the long term amount from ₹ 74.50 crores to ₹ 75.00 crores and short term amount from ₹ 23.25 crores to ₹ 17.25 crores and upgrade the rating of existing long term /short term rating to BWR BBB-/A3 of Miku Polymers & Plastics Limited (Erstwhile Miku Traders) (“MPPL” or “the Company”).

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2018)^	Present
Fund based	74.50	75.00	Long Term	BWR BB +/Stable (Pronounced as BWR Double B plus) [Reaffirmed]	BWR BBB-/Stable (Pronounced as BWR triple B minus) [Upgraded]
Non Fund based	23.25	17.25	Short Term	BWR A4+ (Pronounced as BWR A four plus) [Reaffirmed]	BWR A3 (Pronounced as BWR A three) [Upgraded]
Total	97.75	92.25	INR Ninety Two crores and Twenty five lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I.

^Rating was moved to rating not reviewed category in November 2019

RATING ACTION / OUTLOOK

The rating upgrade is driven by the healthy growth in revenue and net cash accruals of the Company. The rating also considers the change in the constitution of MPPL from partnership firm to public limited company in March, 2019 which eliminates the capital withdrawal risk.

The rating continues to draw comfort from the established presence in the polymers trading & distribution operations spanning across the country supported by a wide product portfolio, diversified customer base and long standing relations with suppliers. BWR notes that healthy growth in revenue



reported by the company in FY2019 supported by the addition of new customers and in product portfolio. The rating also considers the extensive experience of the promoters and continuous infusion of funds by them either in the form of capital or unsecured loans to meet the working capital requirements of the company.

However, the rating is constrained on account of the high dependence on working capital funding for revenue growth, exposure to geographic concentration risk, modest coverage indicators and thin profitability which is susceptible to volatility in the prices of traded goods. The rating is also constrained by the highly fragmented and competitive polymer trading business.

Outlook: Stable

Considering, established presence, experienced management and diversified customer base of the Company, BWR believes that the MPPL's business risk profile will be maintained over the near to medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Established presence of the Company and extensive experience of the promoters in the polymer trading business.**

The Company has been operating in the polymer & chemical trading business for almost four decades. The Company was previously being promoted and managed by Mr. Malvik Hathi and his two sons Mr. Utkarsh Hathi and Mr. Arpit M. Hathi. However, after the recent demise of Mr. Malvik Hathi, the company is being managed and promoted by Mr. Utkarsh Hathi and Mr. Arpit M. Hathi who collectively possess more than two decades of experience in polymer trading industry. The extensive experience of the promoters has helped the company to maintain long standing relations with customers & suppliers.

- **Wide product portfolio, diversified customer base and established relation with suppliers**

The Company trades in a wide variety of polymers which find application in agriculture, cosmetics & personal care, food, leather, paint, paper manufacturing, plastic & PVC manufacturing etc. The company also enjoys diversified customer and established relations with reputed suppliers including Indian Oil Corporation Limited, Gujarat State Fertilizers & Chemicals Limited, E.I. Dupont India Private Limited etc. The Company reported healthy growth in revenue of around 25 percent in FY2019 over the previous year owing to addition in customers. Further, the demand outlook for all types of polymers remains healthy supported by the growth in end-user industries.

- **Funding support from promoters and change in the constitution of the Company**

The Company also benefits from the continuous infusion of funds by the promoters either in the form of capital or unsecured loans in FY2018 & FY2019. The unsecured loan of Rs. 44.23 crores

from promoters outstanding as on 31st March, 2019 has been converted into share capital and share premium as on 28 June 2019. Further, the change in the constitution from partnership firm to public limited company has largely eliminated the previous capital withdrawal risk.

Credit Risks:

- **High dependence on working capital funding for revenue growth**

The working capital cycle of the Company has improved from 82 days in FY2018 to 71 days in FY2019 mainly on account of improvement in receivable days from 9 days in FY2018 to 77 days in FY2019. The cash credit limit utilisation stood at around 95 percent for the last twelve months ended as on 30th September 2019. The Company also plans to reduce the credit period offered to customers from 90 days to 60 days in order to support the working capital cycle.

However, the Company is highly dependent on working capital funding to support revenue growth. Going forward, MPPL's ability to obtain working capital borrowings or timely infusion of funds by the promoters to support the additional working requirement will remain key rating sensitivity factors.

- **Geographic Concentration Risk in a highly competitive industry**

The Company derives around 90 percent of its total revenue in FY 2019 from customers located in Gujarat thereby exposing the operations of the Company to geographic concentration risk. However, the Company is an exclusive distributor of supplier's products in this region which mitigates the geographic concentration risk to a certain extent. Further, the Company operates in a highly fragmented and competitive polymer trading business which limits its pricing flexibility.

- **Thin Profitability and same is vulnerable to volatility in the prices of traded goods with modest coverage indicators**

The Company operates at thin profitability margins with operating margin stood at 1.75% and PAT margin at 0.51% for FY2019. The thin margin is on account of the trading nature of business with nil value addition. Further, the profitability of the Company is also vulnerable to volatility in polymer prices in the absence of any pricing flexibility against customer. The coverage indicators of the Company are modest as the Interest Coverage ratio stood at 1.12 times in FY2019 as compared to 0.94 times in the previous year.

Going forward, the ability of the Company to manage the volatility in traded goods prices and maintain its profitability will remain a key rating sensitivity factor.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has principally relied upon the standalone audited financials up to FY19, publicly available information and clarification/information provided by the Company.

RATING SENSITIVITIES

Positive:

- Significant growth in revenue and sustained improvement in profitability leading to improvement in interest coverage indicators above 2 times alongwith debt to equity ratio at below 2 times.

Negative:

- Significant decline in revenue and profitability leading to significant deterioration in the liquidity profile of the company.
- Deterioration in the financial risk profile of the company with debt to equity ratio above 3 times alongwith interest coverage ratio below 2 times

LIQUIDITY POSITION: ADEQUATE

The Company has reported substantial growth in net cash accruals as same stood at Rs. 3.11 crores in FY 2019 as against Rs. 1.69 crores in FY 2018 against nil annual debt repayments for FY 2019. The annual debt repayments over the near to medium term is expected to be around Rs. 1.34 crores and same is expected to be met through internal cash accruals. The unsecured loan from promoters to the tune of Rs. 44.23 crores outstanding as on 31st March 2019 has been converted into share capital & share premium in 28 June 2019.

Further, the Company's average cash credit limit utilisation stood at around 95 percent for the last six months ended as on 30th September 2019. The cash and bank balance stood at Rs. 3.46 crores as on 31.03.2019 which is unencumbered. MPPL has availed new limits from other banks and financial institutions to balance the reduction in the limits by existing lenders. Further, the promoters have the financial flexibility to infuse funds in the form of capital or unsecured loans to support any additional working capital requirements going forward. The Company also plans to reduce the credit period offered to its customers from 90 days to 60 days to support the working capital cycle going forward.

COMPANY PROFILE

Miku Polymers & Plastics Limited (Erstwhile Miku Traders) [MPPL] is a Vadodara-based Company initially established as partnership firm under the name "Miku Traders" in the year 1980. Subsequently, the constitution of the company was converted into a public limited company in March, 2019 and renamed as Miku Polymers & Plastics Limited. The company is promoted by Mr. Malvik Hathi alongwith his two sons Mr. Utkarsh Hathi and Mr. Arpit Hathi. The Company is engaged in trading and distributing of a wide range of engineering and commodity plastic raw material along with specialty additives. The products supplied by the Company find application in agriculture, cosmetics & personal care, food, leather, paint, paper manufacturing, plastic & PVC manufacturing etc. The Company has its head office located in Vadodara and warehouses in Vadodara, Ahmedabad, Surat, Daman, Silvassa, Mumbai, Chennai and Delhi.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2018	FY2019
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	481.23	606.38
EBITDA	Rs. Crs	7.77	10.59
PAT	Rs. Crs	1.49	3.11
Tangible Net worth	Rs. Crs	47.42	4.99
Adjusted Total Debt/Tangible Net worth	Times	1.65	1.68
Current Ratio	Times	1.48	1.45

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not applicable
RATING HISTORY

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	12 November, 2018^	21, September, 2017	2016
Fund Based	Long Term	75.00	BWR BBB-/ Stable (Upgraded)	BWR BB+/ Stable (Reaffirmed)	BWR BB+ /Stable (Assigned)	-
Non Fund Based	Short Term	17.25	BWR A3 (Upgraded)	BWR A4+ (Reaffirmed)	BWR A4+ (Assigned)	-
Total		92.25	INR Ninety Two crores and Twenty five lakhs Only			

^Rating was moved to rating not reviewed category in Nov 2019.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria for Short-Term Debt](#)
- [Rating Criteria for Trading Entities](#)

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ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	State Bank of India	Cash Credit	40.00	-	40.00
2.	State Bank of India	Bank Guarantee	-	7.00	7.00
3.	Bank of Baroda	Cash Credit	19.50	-	19.50

4.	Bank of Baroda	Proposed Cash Credit	7.00	-	7.00
5.	Bank of Baroda	Bank Guarantee	-	10.25	10.25
6.	Bank of Baroda	Letter of Credit (Sublimit of Bank Guarantee)	-	(10.25)	(10.25)
7.	Bank of Baroda	Buyers Credit (Sublimit of Bank Guarantee)	-	(10.25)	(0.00)
8.	Yes Bank Limited	Channel Finance	6.00	-	6.00
9.	Tata Capital Financial Services Limited	Channel Finance	2.50	-	2.50
TOTAL					92.25

Total Rupees Ninety Two Crores and Twenty five lakhs only.

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.



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