

Rating Rationale

Brickwork Ratings assigns ‘BWR BB /Stable/A4+’ for Ace Polyplast Pvt. Ltd.’s proposed Bank Loan Facilities of INR 25 Crore (INR Twenty Five Crore only)

BLR Issue Rating: BWR BB/A4+

Outlook : Stable

Brickwork Ratings (BWR) has assigned **BWR BB (Stable)** (Pronounced Double “B” with “Stable” Outlook) and **BWR A4+** (pronounced “A” four plus) rating for **Ace Polyplast Pvt. Ltd.’s** (“APPL” or “the Company”) proposed bank facilities of INR 25 Crore.

Facilities	Amount (₹ Crore)	Ratings	
Cash Credit (Sub limit of Letter of Credit) Long Term Facility	4.0	BWR BB/Stable	‘BWR BB’ stands for an instrument that is considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry medium credit risk.
Letter of Credit Short Term Facility	25.0	BWR A4+	“BWR A4+” stands for an instrument that is considered to have minimal degree of safety regarding timely payment of financial obligations. Such instruments carry very high credit risk and are susceptible to default.

The rating factors, inter alia, the experienced management team, strong demand of PVC resin in the domestic market, and low gearing. However, the rating is constrained by low profit margins, firm’s working-capital-intensive operations, small net worth, exposure to foreign exchange risk 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 out a warehouse at Shivalik Nagar, Haridwar, which is owned by one of its promoter Mr. Parag Chheda. APPL over the last 3 years is selling significant portion of imports to its associate company Prince Pipes and Fittings Ltd. (PPFL). It is an ISO-9001:2000 Company, which manufactures PVC Pipes &

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

Management Profile

Mr. Jayant Shamji Chheda (CMD) has over 40 years of experience in Prince Group and is responsible for the overall business activities. Mr. Vipul Chheda (Director) is son of Mr. Jayant Chheda and is responsible for Marketing & Sales activities of the products. Mrs Heena Parag Chheda is one of the directors on Board and handles the accounts and finance functions of the company. Mr Jayant Chheda and Mr. Vipul Chheda, hold directorship in other Prince Group Companies namely; Prince Pipes and Fittings Pvt Ltd, Kenson Manufacture Pvt Ltd, Pinnacle Realty Projects Pvt Ltd.

Shareholding Pattern

Name of the shareholders	Share
Mr. Parag Jayant Chheda	74.00%
Mr. Jayant Shamji Chheda	16.16%
Mr. Vipul Jayant Chheda	9.85%

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 which is currently only ₹10 Crores. In FY12, APPL added 2 more clients in its customer base, however they accounted for just 5% of total sales. 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. As of now APPL is able to generate stable revenues due to high demand for its goods by PPFL. However, the imports expose APPL to currency risks, as borne out by the fact that in FY 12, due to fluctuation in foreign currency, APPL reported foreign exchange loss of ₹0.22 Crores as compared to loss of ₹0.09 Crores in FY11.

Strong Domestic Demand for Imported PVC Resin: The demand for PVC resin in India is likely to maintain its strong growth rate due to expansion in demand for PVC pipes and the increasing use of PVC for the applications in the wire and cable industries, packaging, etc. Currently, there is a large demand-supply gap for PVC resins, which is met through imports.

Financial Performance

APPL's strong growth in sales by 294% to ₹ 41.43 Crores in FY12 from ₹ 10.52 Crores in FY11 was not matched by the corresponding growth in PAT margin, which dropped down to 1% in FY12 as compared to 2% in FY11, mainly on account of foreign exchange loss of ₹ 0.22 Crores in FY12 due to volatility in currency exchange rates during the period. On balance sheet front, Company has not availed any fund based secured loan but has significant portion of unsecured loan through its promoter group of ₹ 2.52 Crores in FY12 which has been considered as quasi equity. Interest coverage ratio is comfortable at 4.07 times in FY12 and 3.51 times in FY11. Return on capital employed witnessed a fall to 24% in FY12 as compared to 48% in FY11.

Company is expecting to grow at a CAGR of 38% over period of next 2 yrs. Growth in turnover will only be possible for APPL if it gets its Letter of Credit limit enhanced gradually over the years and puts in place a suitable mechanism for mitigating the forex-related risks.

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.

Analyst	Media
Hepal Shah hepal.s@brickworkratings.com	Anitha G media@brickworkratings.com
	Relationship Contact
	K N Suvarna Senior VP – Business Development kn.suvarna@brickworkratings.com
Phone: 1-860-425-2742	

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Annexures: Key financials for the Company are as per the tables below:

Annex I: Balance sheet

₹ Lakhs

As on March 31	2009-10	2010-11
Equity Capital	5.58	5.58
Reserves & Surplus	(0.28)	21.41
Secured loan	-	-
Unsecured Loan	0.80	87.60
Total Loans	0.80	87.60
Total Liabilities	6.10	114.59
Net Fixed Assets	-	-
Investment	-	-
Current Assets	1.27	618.86
Current Liabilities	0.06	508.40
Net Current asset	1.21	110.46
Miscellaneous Expenses	4.89	4.14
Total Assets	6.10	114.59

Annex II: Income Statement

₹ Lakhs

As on March 31	2009-10	2010-11
Net Sales	-	1052.79
Other Income	0.01	2.04
COGS	-	991.69
SG & A	0.29	6.45
Total Expenditure	0.29	998.14
Foreign Exchange Losses	-	(9.18)
Depreciation	-	-
Interest & Financial Expenses	-	15.55
PBT	(0.28)	31.96
PAT	(0.28)	21.41

Annex III: Ratios

As on March 31	2009-10	2010-11
Debt Equity	-	0.87
ISCR	-	3.51
NCA/Total Debt	(0.36)	0.24
Current Ratio	21.20	1.22
ROCE	(5%)	48%
NPM	-	2%
Net worth (₹ Lakhs)*	6	115

*Unsecured loan from Directors has been considered as quasi equity in Net worth. Note – Apart from audited financials of FY10 and FY11, provisional numbers for FY12 are also taken into consideration to arrive at rating.