December 02, 2022

Godavari Polymers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	34.00	31.50	[ICRA]D; reaffirmed
Long-term fund based – Term loan	1.81	11.93	[ICRA]D; reaffirmed
Short-term – Non-fund based	34.62	34.50	[ICRA]D; reaffirmed
Long-term unallocated limits	50.37	42.87	[ICRA]D; reaffirmed
Total	**120.80**	**120.80**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to consider the delays in debt servicing by Godavari Polymers Private Limited (GPPL) owing to its poor liquidity position and negative cash accruals. The poor liquidity position has been on account of delays in receivables from its customers and a sizeable work-in-progress inventory. Further, the rating continues to factor in its weak financial profile, marked by modest scale of operations, operational losses and weak debt protection metrics. Also, the profitability indicators remain exposed to fluctuations in raw material prices. ICRA notes the company has an established brand presence and extensive experience in the polymer processing business. ICRA also notes GPPL's extensive distribution network and a diversified mix of revenues from the RDS network, micro-irrigation systems and institutional Government projects.

Key rating drivers and their description

Credit strengths

Significant experience in polymer processing business and established brand name – The company has 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 in the regions it operates.

Widespread distribution network –Over the years, GPPL has built an extensive distribution network of over 500 dealers in the rural and semi-urban areas across six states in India for selling its products and is expanding its presence in other states.

The company has a diversified mix of revenues from the RDS network, micro-irrigation systems and IGP projects, minimising the risks related to any segment-specific downturn. However, revenues from IGP and micro-irrigation systems have been limited in the last two years owing to increased receivables from these segments. Going forward, the revenue would be driven by the RDS segment where the receivable risk is limited.

Credit challenges

Poor liquidity – The company's liquidity position is poor, as reflected in the delays in meeting debt repayment obligations. The poor liquidity position has been on account of delays in receivables from its customers and a sizeable work-in-progress inventory.

Weak financial profile, marked by modest scale of operations, operational losses and weak debt protection metrics – High fixed expenses with declining revenue resulted in operating losses and negative cash accruals in FY2021 and FY2022. Operating loss, negative cash accruals and stretched receivables resulted in higher debt and moderation in coverage indicators. The coverage indicators are expected to remain weak in the near term. However, to support the liquidity, the promoters have infused Rs. 5.00-crore equity in H1 FY2023.

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 prices of raw materials could have an adverse impact on its margins, considering the stiff competition in the industry.

Liquidity position: Poor

GPPL's liquidity is poor, evident from GPPL's recent instances of delays in debt servicing. The liquidity position continues to be poor due to negative cash accruals and high working capital-intensive nature of operations emanating from its stretched receivables and sizeable work-in-progress inventory.

Rating sensitivities

Positive factors – The ratings could be upgraded if the debt servicing is regularised for a sustained period, as per ICRA policy.

Negative factors – Not applicable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Default Recognition
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

GPPL was incorporated in August 1990 as a private limited company and manufactures high-density polyethylene (HDPE) pipes, sprinkler irrigation systems, drip irrigation systems and PVC pipes. The company has two manufacturing units with an 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 (Audited)

	FY2021	FY2022
Operating income	178.9	86.5
PAT	-17.8	-17.6
OPBDIT/OI	-2.5%	-7.1%
PAT/OI	-9.9%	-20.4%
Total outside liabilities/Tangible net worth (times)	5.6	11.3
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Total assets and net worth exclude revaluation reserves;Note: Amount in Rs. crore; All calculations are as per ICRA Research; NM- Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on Sep 30, 2022	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 2, 2022	Apr 4, 2022	Apr 7, 2021	-	Mar 26, 2020
1	Cash credit	Long-term	31.50	-	[ICRA]D	[ICRA]D	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)
2	Term loan	Long-term	11.93	11.24	[ICRA]D	[ICRA]D	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)
3	Letter of credit	Short-term	20.00	-	[ICRA]D	[ICRA]D	[ICRA]A4	-	[ICRA]A4
4	Bank guarantee	Short-term	14.50	-	[ICRA]D	[ICRA]D	[ICRA]A4	-	[ICRA]A4
5	Unallocated	Long-term	42.87	-	[ICRA]D	[ICRA]D	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based TL	Simple
Long Term - Fund Based/ CC	Simple
Long Term - Unallocated	Not applicable
Short Term - Non-Fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2022	NA	FY2027	10.68	[ICRA]D
NA	Term Loan-II	March 2018	NA	FY2023	1.25	[ICRA]D
NA	Cash Credit	NA	NA	NA	31.50	[ICRA]D
NA	Letter of Credit	NA	NA	NA	20.00	[ICRA]D
NA	Bank Guarantee	NA	NA	NA	14.50	[ICRA]D
NA	Unallocated limits	NA	NA	NA	42.87	[ICRA]D

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Kushal Kumar
+91 40 4067 6521
Kushal.kumar@icraindia.com

Sankalpa Mohapatra
+91 40 4067 6525
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches