September 03, 2024

Gowra Petrochem Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Others – Fund-based/Non fund based	49.80	49.80	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Long term - Cash credit – Fund-based	4.00	4.00	[ICRA]BBB+ (Stable); reaffirmed
Total	**53.8**	**53.8**	

Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in Gowra Petrochem Private Limited's (GPPL) established relationship with Reliance Industries Limited (RIL) as a del credere agent (DCA) for the polymer business in Andhra Pradesh and Telangana, and its diversified revenue portfolio. GPPL's revenue consists of income from the trading of metals and chemicals along with income from the sale of RIL's polymer products as its DCA. The financial risk profile remains comfortable.

The revenues from the trading segment increased in FY2024 as prices of metals have stabilised in the last one year. The entity's total clean credit exposure/net worth ratio reduced to ~22% as on March 31, 2024 from ~63% as on March 31, 2023 due to the lower receivables and increase in the tangible net worth over the years. Further, the capital structure remained comfortable and the coverage indicators were moderate.

The ratings are, however, constrained by the exposure to counterparty credit risk in its DCA and trading businesses, as any default on payments could have an adverse impact on GPPL's profitability, as seen in the past. The profitability margins also remain susceptible to interest rate movements. The profit margins in the past were impacted by large bad debt write-offs for some long-pending receivables. However, no major bad debt was recorded in FY2024. The company recovered bad debt of Rs. 0.40 crore in FY2024 and 0.41 crore in FY2023 for the earlier years. Further, the working capital intensity moderated to 14% in FY2024 and adjusted for the overall DCA income remained low at ~6% in FY2024.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's belief that GPPL will continue to benefit from its established relationship with RIL, resulting in healthy commission and interest income.

Key rating drivers and their description

Credit strengths

Established DCA for RIL - GPPL has been associated with RIL for over two decades and is involved in the distribution of polymer products manufactured by RIL, namely polypropylene (PP), polyethylene (PE) and poly vinyl chloride (PVC), in Telangana and Andhra Pradesh. The volumes of the DCA business grew to 61,649 MT in FY2024 from 57,640 MT in FY2023. The volumes for RIL increased ~12% YoY to 53,984 MT in FY2024 from 48,017 MT in FY2023. The DCA income declined to Rs. 7.76 crore in FY2024 from Rs. 11.70 crore in FY2023 on account of lower interest earned on receivables as the customers had availed lower credit period. The DCA revenue consists of direct income of cash discounts, commission income and interest income. Interest income in the DCA business was the major contributor to the DCA revenue in FY2024.

Diversified revenue portfolio – GPPL's revenue consists of income from the trading of metals and chemicals and income from the sale of polymer products as RIL's DCA. The revenue from the trading segment improved in FY2024 to ~Rs. 158 crore from ~Rs. 57 crore in FY2023 on account of less volatility in the prices of metals in the last one year. Around 80% of the trading business is backed by orders and the balance portion is sold in the open market.

Comfortable financial risk profile – The financial risk profile remains comfortable. The revenues from the trading segment increased in FY2024 as the prices of metals have stabilised in the last one year. The working capital intensity adjusted for the overall DCA revenue (Rs. ~674 crore in FY2024) remained moderate at ~6% in FY2024 vis-à-vis ~9% in FY2023. The entity's total clean credit exposure/net worth ratio reduced to ~22% as on March 31, 2024 from ~63% as on March 31, 2023 due to the lower receivables and increase in the tangible net worth over the years. Further, the capital structure remained comfortable and the coverage indicators were moderate. At a consolidated level, the gearing and TOL/TNW ratios remained moderate at 0.39 times and 0.57 times, respectively, as on March 31, 2024. The interest coverage, at a consolidated level, remained comfortable at ~3.5 times in FY2024.

Credit challenges

Exposure of profitability to interest rate fluctuations - The company received an interest of Rs. 8.98 crore in FY2024 against Rs. 10.79 crore in FY2023. Of this, the interest income from the DCA business declined to Rs. 2.79 crore in FY2024 from Rs. 6.02 crore in FY2023 on account of lower credit period availed by the customers. The balance portion pertains to interest income from inter-corporate deposits given to promoter-related companies. The company's net interest income, therefore, needs to be sustained to maintain its profitability levels. The interest income/interest expense ratio was healthy in the range of 2-6 times during FY2021-FY2024. In FY2024, the ratio witnessed a slight moderation to 1.9 times. The profitability is exposed to interest rate fluctuations and GPPL's ability to pass on any increase in interest rates remains important.

Counterparty credit risk due to DCA business - GPPL bears credit risk while supplying the principal products to customers and any payment default by the customers could adversely affect the company's profitability and net worth levels. Although GPPL had no bad debt in FY2022-FY2024, it reported a bad debt of Rs. 5.45 crore in FY2020, which moderated to Rs. 1.9 crore in FY2021. The company recovered a bad debt of Rs. 0.40 crore in FY2024 and 0.41 crore in FY2023 for the earlier years.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, supported by stable cash flows from operations and adequate cushion from undrawn working capital limits with the average utilisation of fund-based limits being moderate at 22% in the past 10 months ended June 30, 2024. Further, the company does not have any major capex plans and has nil debt repayment obligations in FY2025 and FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade GPPL's ratings if there is any significant improvement in the company's scale of operations and profitability, which will strengthen the net worth and enable business diversification.

Negative factors – Pressure on GPPL's ratings could arise if there is a significant decline in margins, or if there is any deterioration in the working capital cycle impacting the liquidity position. Any decrease in volumes for the DCA business, or significant debtor write-offs impacting the company's profitability may also trigger a rating change. A specific credit metric for downgrade would be interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has consolidated the financials of both the entities – Gowra Metals and Polymers Private Limited and Gowra Bits & Bytes Private Limited - to which corporate guarantees have been extended by GPPL (Gowra Petrochem Private Limited)

About the company

GPPL was incorporated in March 1995 to conduct business in indenting, consignment sales, stocking and trading of various polymers, organic and inorganic chemicals, solvents and intermediates. It has been the DCA for Reliance Industries Limited (RIL) for the distribution of polymer products in Andhra Pradesh since 1996. The company is a DCA for Chemplast Sanmar Ltd. as well. GPPL is also involved in the direct trading of some metals, chemicals and solvents.

Gowra Metals and Polymers Private Limited (GMPPL) is engaged in the trading of metals, while Gowra Bits & Bytes Private Limited (GBBPL) provides IT infrastructure services and trades in computer peripherals in the domestic market.

Key financial indicators (Audited)

GPPL Standalone	FY2023	FY2024^
Operating income	69.2	166.1
PAT	7.7	8.2
OPBDIT/OI (%)	12.6%	2.4%
PAT/OI (%)	11.1%	4.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.2
Total debt/OPBDIT (times)	3.5	0.8
Interest coverage (times)	4.4	3.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
^Provisional

GPPL Consolidated	FY2023	FY2024^
Operating income	242.3	459.9
PAT	7.3	13.6
OPBDIT/OI (%)	5.4%	3.2%
PAT/OI (%)	3.0%	2.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	4.7	3.0
Interest coverage (times)	2.8	3.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
^Provisional
Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not Available

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs Crore)**	**September 03, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term/Short term – Others – Fund-based/Non-fund based	Long Term/ Short Term	49.80	[ICRA]BBB+ (Stable) / [ICRA]A2	25-AUG-2023	[ICRA]BBB + (Stable)/ [ICRA]A2	18-AUG-2022	[ICRA]BBB + (Stable)/ [ICRA]A2	03-AUG-2021	[ICRA]BBB+ (Stable)/ [ICRA]A2
Long term - Cash credit – Fund-based	Long Term	4.00	[ICRA]BBB+ (Stable)	25-AUG-2023	[ICRA]BBB + (Stable)	18-AUG-2022	[ICRA]BBB + (Stable)	03-AUG-2021	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based	Simple
Long term Short term – Fund-based & non-fund based	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	Long-term fund-based	NA	NA	NA	4.00	[ICRA]BBB+ (Stable)
NA	Long-term/Short-term – Fund-based & non-fund based	NA	NA	NA	49.8	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: *Company*

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

Annexure II: List of entities considered for consolidated analysis:

Company Name*	Ownership	Consolidation Approach
Gowra Metals & Polymers Private Limited	NA	Full Consolidation
Gowra Bits & Bytes Private Limited	NA	Full Consolidation

**GPPL extended corporate guarantees to the debt availed by the above entities*

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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.

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