Press Release

Himalaya Polytech Private Limited (HPPL)

May 08, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Fund Based Bank Facilities – Term Loan	6.80	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Removed from 'ISSUER NOT COOPERATING
Long Term Fund Based Bank Facilities – Cash Credit	7.80	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Removed from 'ISSUER NOT COOPERATING'
Short Term Non Fund Based Bank Facilities – Letter of Credit/Bank Guarantee	6.00	IVR A4 (IVR A Four)	Removed from 'ISSUER NOT COOPERATING'
Total	**20.60 (Twenty crore sixty lakh)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Himalaya Polytech Private Ltd (HPPL) takes into account its experienced and qualified promoters and management, and established clientele base. The ratings also note one-time restructuring scheme availed by the company for its bank loans to ease of liquidity pressure. These rating strengths however, are continues to remain constrained by its small scale of operations with stable profitability, exposure of profitability to volatility in raw material price, high competition and presence of large number of players with moderate client concentration, regulatory risk and working capital intensive nature of operations leading to leveraged capital structure and moderate debt protection metrics.

Key Rating Sensitivities

Upward Rating Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals
- Improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage indicators
- Deterioration in the capital structure with overall gearing to over 2x and interest coverage to below 1.5x
- Elongation in the operating cycle impacting the liquidity and high average utilization in bank borrowings on a sustained basis

List of key rating drivers with detailed description

Key Rating Strengths

Experienced and qualified promoters and management

The promoter Mr. Anil Kumar Jain has business experience of over four decades. The other directors, Mrs. Sunita Jain (wife of Mr. Anil Kumar Jain) also has an experience of about 30 years. The business is now being managed by the second generation of the family - Mr. Anubhav Jain (son of Mr. Anil Jain) is a young entrepreneur, who is well qualified – B.Tech and MBA (Finance) and has prior experience of working in multinationals such as Goldman Sachs. He is assisted by his wife Mrs. Anukampa Jain who is a B.Com, M.Com, FCA and Masters in Business Law. She is the Chief Financial Officer of the company. Experience of the first generation combined with the exposure and vision of the second generation is a key strength for the business and its future prospects.

Established clientele base and relationship

Over the years of its operations the company has established relationships with its key clienteles which include various FMCG and liquor players.

Restructuring of loans

During FY19, the company voluntarily opted for restructuring scheme available for MSME’s permitted by the Reserve Bank of India for its bank facilities. Under the restructuring scheme, the company rescheduled its debt facilities which ease pressure on its debt obligations and liquidity to an extent.

Key Rating Weaknesses

Small scale of operations with stable profitability

The total operating income of the company witnessed a moderate y-o-y growth of ~10% in FY19. The growth was driven by, increase in revenues from liquor segment and addition of new clients (mainly KRBL Ltd) in its client portfolio. The EBITDA margin though moderated marginally from 14.62% in FY18 to 12.69% in FY19 due to higher increase in raw materials price continued to remain comfortable. The PAT margin continued to remain thin at 1.29% in FY19 as compared to 1.17% in FY18. Notwithstanding, the growth, the scale of operations of the company continued to remain small. Further, during 9MFY20, the company has earned operating income of Rs.22.86 crore. Infomerics expects that the scale of operations of the company will continue to remain small in the near term.

Exposure of profitability to volatility in raw material price

Key input that the company uses is PET chip which is a crude oil derivative. Crude oil being a globally traded commodity, its pricing is determined by international macro-economic factors – thereby leading to the price of the company’s key raw material being susceptible to volatility. Though, the company passes on the impact of raw material price movement to clientele, its margins still continue to be susceptible to volatility.

High competition and presence of large number of players with moderate client concentration

The industry is characterised by intense competition due to presence of many organised as well as unorganised players on account of low entry barriers due to less capital intensive nature of operations and limited technological/statutory/quality requirements. Further, the company derives ~63% of its total income from its top ten customers which indicates a moderate degree of client concentration risk.

Regulatory risk

Though the packaging industry in India has huge growth potential (per capita consumption of packaging being low at 11 kg as compared to 38kg and 32 kg for other developing countries like China and Brazil), increasing awareness about the negative impact of plastics and allied products on the environment is a key weakness for the plastic and PET packaging industry at large. Hence, the business is highly susceptible to various Government regulations.

Working capital intensive nature of operations leading to leveraged capital structure and moderate debt protection matrices

The operations of the company continue to remain working capital intensive due to its high inventory holding requirements leading to high average inventory holding period. On the other hand, the average collection period also continued to remain elongated due to intense competition in the operating spectrum and its low bargaining power owing to its small size. The operating cycle continued to remain elongated at 147 days in FY19 though improved from 165 days in FY18. To fund its working capital requirement the company largely resorted to working capital borrowings. Consequently, the average working capital utilisation of the fund based limits remained high at about 97.65 per cent for twelve months ended Mar 2019. With higher dependence on working capital borrowings the capital structure of the company continued to remain leveraged with an overall gearing at 1.73x as on March 31, 2019 (March 31, 2018: 1.90x). Further, the debt protection metrics of the company also continued to remain moderate marked by Total debt to GCA and Interest coverage ratio at 10.55 times in FY 19 (FY 18: 10.69 times) and 1.60 times in FY 19.(FY 18: 1.55 times) respectively. The debt profile of the company also includes unsecured loans from the directors and its relatives aggregating to Rs.1.50 crore outstanding as on March 31, 2019 which were treated as neither debt nor equity.

Analytical Approach & Applicable Criteria

Standalone

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity Position: Stretched

Liquidity position of the company is expected to remain stretched in near term due to its working capital intensive nature of operations marked by its elongated operating cycle. Further, the average fund based limit utilisation also remained high at ~98% during the past 12 months ended February, 2020 indicating a low liquidity buffer. However, the company is expected to earn adequate cash accruals to serve its debt obligations in FY21-22 which imparts some comfort.

About the Company

Himalaya Polytech Private Limited ("HPPL") was incorporated in the year 2005 by Delhi based one Jain family. The company is a family owned business and is run by Mr. Anil Kumar Jain, his wife Mrs. Sunita Jain, his son Mr. Anubhav Jain and daughter in law - Mrs. Anukampa Jain. HPPL has a manufacturing facility located at Pantnagar, Uttrakhand. The company is engaged in the manufacturing and sale of PET preforms, bottles and jars, thermoplastic wheels and plastic caps. Products of the company are used by clientele in the beverage, cosmetics, confectionary, juices, edible oil, pharmaceuticals and distilleries businesses.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	26.54	29.12
EBITDA	3.72	3.69
PAT	0.31	0.38
Total Debt	15.87	15.29

Tangible Net worth	7.53	7.98
EBITDA Margin (%)	14.02	12.69
PAT Margin (%)	1.17	1.29
Overall Gearing Ratio (x)	1.90	1.73

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable
Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Term Loan	Long Term	6.80	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	IVR BB/Stable; ISSUER NOT COOPERATING* (IVR Double B with Stable Outlook; Issuer Not Cooperating) (Jan 13,2020)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook) (Aug 14,2018)	--
2.	Cash Credit	Long Term	7.80	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	IVR BB/Stable; ISSUER NOT COOPERATING* (IVR Double B with Stable Outlook; Issuer Not Cooperating) (Jan 13,2020)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook) (Aug 14,2018)	--
3.	Letter of Credit/Bank Guarantee	Short Term	6.00	IVR A4 (IVR A Four)	IVR A4; ISSUER NOT COOPERATING* (IVR A Four; Issuer Not Cooperating) (Jan 13,2020)	IVR A4+ (IVR A Four Plus) (Aug 14,2018)	--

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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Analysts:

Name: Mr. John Francis	Name: Mr. Avik Podder
Tel: (022) 62396023	Tel: (033) 46022266
Email : jfrancis@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	--	--	December 2024	6.80	IVR BB/ Stable Outlook
Cash Credit	--	--	--	7.80	IVR BB/ Stable Outlook
Letter of Credit/Bank Guarantee	--	--	--	6.00	IVR A4 (IVR A Four)
Total				**20.60**	