

April 04, 2022

Godavari Polymers Private Limited- Update on Material Event; Ratings downgraded to [ICRA]D/[ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating action
Fund-based/Cash Credit	35.00	34.00	Downgraded to [ICRA]D from [ICRA]BB(Negative)
Fund-based- Term Loan	5.94	1.81	Downgraded to [ICRA]D from [ICRA]BB(Negative)
Non-fund-based Limits	50.00	34.62	Downgraded to [ICRA]D from [ICRA]A4
Unallocated Limits	29.86	50.37	Downgraded to [ICRA]D from [ICRA]BB(Negative)
Total	120.80	120.80	

Rationale

The rating downgrade of Godavari Polymers Private Limited (GPPL) factors in the instances of overutilisation in the Cash Credit limit (continuously overutilised for more than 30 days) in the recent months owing to the company's poor liquidity position. The delay in debt servicing has primarily been on account of delays in receivables from its customers.

It may be noted that the GPPL had been sharing No Default Statements with ICRA, indicating a regular track record of debt servicing. However, based on the communication received from the lender, it has come to notice that there were instances of overutilisation of the Cash Credit limits (continuously for more than 30 days) in recent past.

Further, the rating continues to factor in GPPL's poor liquidity position, continuous deterioration in financial profile and exposure of its margins to fluctuations in raw material prices. ICRA notes the company has established brand presence and extensive experience in polymer processing business. ICRA also notes GPPL's extensive distribution network and 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.

Diversified mix of revenues – 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 have been limited in the past two years as it did not receive any new orders.

Widespread distribution network – Over the years, GPPL has built an extensive distribution network of over 3,560 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.

Credit challenges

Poor liquidity position as reflected in over utilisation of working capital limits – The company’s liquidity position is poor, as reflected by the instances of overutilisation in the Cash Credit limit (continuously overutilised for more than 30 days) in the recent months. The delay in debt servicing has primarily been on account of delays in receivables from its customers.

Continuous deterioration in financial profile – A decline in revenues and stretched receivables resulted in higher debt and moderation in coverage indicators with an interest coverage of 0.9 times, TD/OPBDITA of 5.0 times and DCSR of 0.7 times in FY2020 and are expected to remain modest in the near term.

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 price of raw materials could have an adverse impact on its margins, considering the limited value addition and stiff competition in the industry.

Liquidity position: Poor

GPPL’s liquidity is **poor** as evident from GPPL’s recent instances of delays in debt servicing. The cash credit account has remained overdrawn for more than 30 days during recent past. The liquidity position continues to remain poor due to weak cash accruals and highly working capital-intensive nature of operations emanating from its high receivables.

Rating sensitivities

Positive factors – The rating could be upgraded on regularisation of debt servicing 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 rating is 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)

	FY2019	FY2020
Operating Income (Rs. crore)	272.1	205.9
PAT (Rs. crore)	3.9	-3.9
OPBDIT/OI (%)	6.2%	4.7%
PAT/OI (%)	1.4%	-1.9%
Total Outside Liabilities/Tangible Net Worth (times)	3.5	3.3
Total Debt/OPBDIT (times)	3.0	5.0
Interest Coverage (times)	2.1	0.9

Source: Company, ICRA Research;

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios as per ICRA calculations.

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 as of Mar 31, 20202 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Apr 4, 2022	April 07, 2021	-	March 26,2020
1 Cash Credit	Long-term	34.00	-	[ICRA]D	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)
2 Term Loan	Long-term	1.81	1.39	[ICRA]D	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)
3 Non fund-based limits	Short-term	34.62	-	[ICRA]D	[ICRA]A4	-	[ICRA]A4
6 Unallocated	Long-term	50.37	-	[ICRA]D	[ICRA]BB(Negative)	-	[ICRA]BB(Stable)

Complexity level of the rated instrument

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	34.00	[ICRA]D
NA	Term Loan	March 2018	-	January 2023	1.81	[ICRA]D
NA	Non-Fund Based Limit	-	-	-	34.62	[ICRA]D
NA	Unallocated	-	-	-	50.37	[ICRA]D

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis -Not applicable

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About ICRA Limited:

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