

CREDIT RATING REPORT

AUGUST 2022

Axel Polymers Ltd

Rating action

Instrument rated	
Total bank loan facilities rated	Rs 24 crore (enhanced from Rs 9 crore)
Long-term rating	CRISIL B/Stable (reaffirmed)
Short-term rating	CRISIL A4 (reaffirmed)
<i>1 crore = 10 million</i>	
<i>Refer annexure for details of instruments and bank facilities</i>	

Rating history			
Date	Long-term rating	Short-term rating	Rating watch/outlook
Jul 4, 2022	CRISIL B	CRISIL A4	Stable
Apr 30, 2021	CRISIL B	CRISIL A4	Stable
Aug 11, 2020	CRISIL D	CRISIL D	-
Aug 2, 2019	CRISIL B+	CRISIL A4	Stable

CRISIL Ratings has reaffirmed its 'CRISIL B/Stable/CRISIL A4' ratings on the bank facilities of Axel Polymers Ltd (APL).

Analytical approach: Not applicable

Rating drivers

Weaknesses

- Improving, but leveraged financial risk profile
- Working capital intensive operations

Strengths

- Extensive experience of the promoters
- Moderate scale of operation amid intense competition

Outlook: Stable

CRISIL Ratings believes that the company shall continue to benefit from the extensive experience of its promoters.

Rating sensitivity factors

Upward scenario

- Increase in revenue of over 25% and sustained operating margin of 7% leading to healthy cash accrual.
- Sharp improvement in the financial risk profile.

Downward scenario

- Deterioration in the working capital cycle with gross current assets (GCAs) of over 300 days and subsequent reliance on external borrowings weakening the financial risk profile, especially liquidity.
- Decline in interest coverage ratio.

Liquidity: Stretched

Liquidity is stretched as reflected in the highly drawn limits, modest cash accrual and low financial flexibility. The reliance on external bank borrowings remained high at 99% over the six months through March 2022.

About the company

APL, incorporated in 1992 at Vadodara, Gujarat, is promoted by Mr B K Bodhanwala and his family members. The company manufactures compounds, blends, and alloys of engineering and specialty polymers. It is listed on the Bombay Stock Exchange. APL was merged with Dhara Petrochemicals Pvt Ltd (established in 2009), promoted by Mr Gaurav Thanky, with effect from September 1, 2021.

The rating reflects the following weaknesses:

Improving, but leveraged financial risk profile

The financial risk profile of the company has been improving continuously over the past few years. Gearing is estimated at a high 3.04 times as on March 31, 2022 (3.99 times a year earlier). Furthermore, total outside liabilities to adjusted networth (TOLANW) ratio also improved from 8.84 times to 5.02 times. Despite improvement, financial risk profile remains leveraged mainly on account of modest networth of Rs 8.54 crore. Debt protection metrics were satisfactory with interest coverage of 1.5 times in fiscal 2022 (against 1.4 times in fiscal 2021). Over the medium term, financial risk profile is expected to improve, but remain leveraged due to modest networth.

Working capital intensive operations

GCAs were high at 200 days, driven by sizeable inventory of around 150 days and moderate receivables of 68 days as on March 31, 2022. A high inventory is maintained to support repeat orders from existing customers. However, payables of 95 days support working capital. Over the medium term, operations are expected to remain working capital intensive.

These weaknesses are partially offset by the following strengths:

Extensive experience of the promoters

The promoter, Mr B K Bodhanwala, and director, Mr A B Bodhanwala, have more than two decades of experience in manufacturing polymer compounds. Benefits from their extensive experience, keen understanding of local market dynamics, and healthy relationship with customers and suppliers should continue to support the business. CRISIL Ratings also takes note of the recent amalgamation with Dhara Petrochemicals Pvt Ltd and resultantly the merged entity to gain from the experience of Gaurav Thanky (MD and CEO of DPPL).

Moderate scale of operation amid intense competition

Despite increasing to over Rs 72.91 crore in fiscal 2022, revenue remains moderate in an intensely competitive industry, which limits the company's pricing power with suppliers and customers, thereby constraining profitability. However, expected benefit of merger to be derived from fiscal 2023 remains a monitorable.

Financial policy

Financial policy is moderately aggressive as reflected in gearing and TOLANW ratios of 3.04 and 5.02 times, respectively, as on March 31, 2022. Gearing should improve over the medium term, with steady accretion to reserve and the absence of any significant, debt-funded capex.

Derivatives

The company is neither exposed to foreign exchange risk nor has dealings in derivatives.

Key financial indicators (Standalone)

As on for the year ended March 31	Unit	2022	2021	2020
		Provisional	Actual	Actual
Net sales	Rs crore	73	23	23
Operating income	Rs crore	73	23	23
OPBDIT	Rs crore	4	2	1
PAT	Rs crore	1	0	0
Net cash accrual	Rs crore	1	1	0
Equity share capital	Rs crore	9	4	4
Adjusted networkth	Rs crore	9	2	2
Adjusted debt	Rs crore	26	9	7
OPBDIT margin	%	5.7	6.9	6.1
Net profit margin	%	1.3	0.8	0.4
ROCE	%	16.9	12.5	11.5
PBDIT / Int. & Finance charges	Times	1.52	1.44	1.45
Net cash accrual / adjusted debt	Times	0.05	0.06	0.06
Adjusted debt / adjusted networkth	Times	3.04	3.99	3.75
Adjusted debt / PBDIT	Times	5.56	5.46	5.26
Current ratio	Times	1.17	1.17	1.12
Cashflow from operations	Rs crore	-12	-1	0
TOL/ ANW	Times	5.02	8.84	7.02
Operating income/gross block	Times	5.85	1.96	1.97
Gross current assets	Days	200	269	177
Debtor	Days	68	95	41
Inventory	Days	150	190	148
Creditor	Days	95	143	59

Notes to financial performance (Standalone)

Ratios	Unit	2021	2020	2019
		Actual	Actual	Actual
Investment or loans and advances to subsidiaries	Cröre	00.00	00.00	00.00
Interest accrued and due	Cröre	00.00	00.00	00.00
Contingent liabilities (more than 10% of networkth)	Cröre	00.28	00.09	00.10
Debtors greater than 6 months	Cröre	00.00	00.00	00.00

Annexure 1: Bank-details of facility classes

1.Cash credit

#	Bank	Amount (Rs crore)	Rating
a.	Bank of India	10	CRISIL B / Stable
b.	Bank of Baroda	5	CRISIL B / Stable
-	Total	15	-

2. Inland/Import letter of credit

#	Bank	Amount (Rs crore)	Rating
a.	Bank of India	5	CRISIL A4
b.	Bank of Baroda	4	CRISIL A4
-	Total	9	-