

## Rating Rationale

October 08, 2021 | Mumbai

### Polyhose India (Rubber) Private Limited

Rating reaffirmed at 'CRISIL BBB+ / Stable'; rated amount enhanced for Bank Debt

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.85 Crore (Enhanced from Rs.65 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL BBB+/Stable (Reaffirmed)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed the rating on the long-term bank facilities of Polyhose India (Rubber) Pvt Ltd (PIRPL; part of Polyhose group) at 'CRISIL BBB+/Stable'.

The rating continue to reflect the benefits that the group derives from its established market position in the rubber hose market, and its moderate financial risk profile. These rating strengths are partially offset by moderate scale of operations amidst intense competition and susceptibility to volatile raw material prices.

#### Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of PIRPL and its 70% subsidiary, Vector Hydraulics Pvt Ltd (VHPL). This is because the two companies, together referred to as the Polyhose group, are under common promoters, in the same line of business, and have fungible cash flows between them.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

\* **Established market position, and healthy growth prospects for the rubber hose market:** Benefits from the two decade-long experience of the promoter, Mr Shabbir, in the rubber hose industry, and assured offtake, and technical and operational support from Caterpillar Inc (US), will continue. The product profile comprises hydraulics hoses, air hoses, spiral hoses, and fuel hoses, which are used in diverse industries. The group mainly focuses on the replacement market, where demand is steady, given the highly consumable nature of the product. The group also has established relationships with traders and dealers globally.

\* **Moderate financial risk profile:** Financial risk profile is moderate, marked by comfortable gearing and debt protection metrics. Gearing is estimated at around 0.6 time as on March 31, 2020. Interest coverage and net cash accrual to total debt ratios are estimated at 5 times and 40%, respectively, for fiscal 2021.

##### Weaknesses:

\* **Moderate scale of operations in an intensely competitive industry:** The global rubber hose market is dominated by large players such as Parker Hannifin Corporation (US), Eaton Corporation (US), and Gates Corporation (US), with diversified operations across several countries and Polyhose group is a moderate sized player in an intensely competitive business. Also, the competitive nature of business puts exerts pricing pressure on players. Improvement in scale of operations and sustenance of operating margin will remain a key rating sensitive factor

\* **Susceptibility of operating margin to volatility in raw material prices:** Price of synthetic rubber, the key raw material, is strongly correlated to prices of crude oil, which tend to be volatile. Volatility in raw material prices may exert pressure on the group's operating margin, as the impact can be passed on only partially or with a lag. Profitability is also susceptible to intense competition, and availability of substitutes such as nylon hoses, steel corrugated hoses, and silicone hoses.

##### Liquidity: Adequate

Liquidity is adequate marked by generation of more than sufficient accruals against repayment obligation, moderate bank limit utilisation. Polyhose group is expected to generate annual cash accruals of Rs.25-30 crores sufficient for repayment of Rs.13-14 crores per annum over the medium term. Bank limits are moderately utilised at less than 30% over the 12 months

through May 2021. The group maintains cash balances of Rs.3-4 crores to meet exigencies. Current ratio is estimated at 1.7 times as on March 31, 2021.

### **Outlook Stable**

CRISIL Ratings believes the Polyhose rubber group will continue to benefit from its established position in the rubber hose market, strong technical support from its parents, and comfortable capital structure.

### **Rating Sensitivity factors**

#### **Upward factors**

- \* Improvement in scale of operations to more than Rs.350 crores and sustenance of operating margin at more than 14%
- \* Improvement in working capital cycle with gross current asset days (GCA) of less than 200 days

#### **Downward factors**

- \* Substantial decline in revenues or drop in operating margin to less than 10%
- \* Larger debt funded capital expenditure or deterioration in working capital cycle

### **About the Group**

PIRPL, set up by Mr Y Shabbir in 2005, manufactures hydraulic and industrial hoses, which are used in mining, construction, agriculture, and automotive industries. The manufacturing facility is at Sriperumbudur near Chennai. Polyhose India Pvt Ltd (PIPL; 'CRISIL A-/Stable/CRISIL A2+'), Mr Y Shabbir, and Caterpillar Asia Pte Ltd (CAPL) of Singapore, hold 32%, 37.5%, and 30.5%, respectively, of PIRPL's shares.

PIRPL's subsidiary - VHPL, is engaged in hose assembly works, primarily for Caterpillar India Pvt Ltd. Its facility is also located in Sriperumbudur.

The group's operations are managed by Mr Shabbir and his nephew, Mr Ali Asger.

### **Key Financial Indicators**

Particulars	Unit	2020	2019
Revenue	Rs crore	296	298
Profit after tax (PAT)	Rs crore	11	10
PAT margin	%	4.6	3.5
Adjusted debt/adjusted networkth	Times	0.80	0.74
Interest coverage	Times	4.41	5.62

**Any other information:** Not applicable

### **Note on complexity levels of the rated instrument:**

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### **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	70	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	Mar-2024	1	NA	CRISIL BBB+/Stable
NA	Export packing credit	NA	NA	NA	14	NA	CRISIL BBB+/Stable

### **Annexure – List of entities consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Polyhose India (Rubber) Pvt Ltd	Full	Common promoters, in the same line of business, and have fungible cash flows
Vector Hydraulics Pvt Ltd	Full	Common promoters, in the same line of business, and have fungible cash flows

### **Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	85.0	CRISIL BBB+/Stable	06-10-21	CRISIL BBB+/Stable	29-06-20	CRISIL BBB+/Stable	26-03-19	CRISIL BBB+/Stable		--	CRISIL BBB+/Stable

			--	02-08-21	CRISIL BBB+/Stable		--		--		--	--
<b>Non-Fund Based Facilities</b>	ST		--		--		--		--		--	CRISIL A2

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	20	HDFC Bank Limited	CRISIL BBB+/Stable
Cash Credit	5	Development Bank of Singapore	CRISIL BBB+/Stable
Cash Credit	30	Development Bank of Singapore	CRISIL BBB+/Stable
Cash Credit	10	Citibank N. A.	CRISIL BBB+/Stable
Cash Credit	5	HDFC Bank Limited	CRISIL BBB+/Stable
Export Packing Credit	14	HSBC Bank Plc	CRISIL BBB+/Stable
Long Term Loan	1	HSBC Bank Plc	CRISIL BBB+/Stable

This Annexure has been updated on 8-Oct-2021 in line with the lender-wise facility details as on 8-Oct-2021 received from the rated entity

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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