

Rating Rationale

November 28, 2022 | Mumbai

Polyhose India (Rubber) Private Limited

Rating reaffirmed at 'CRISIL BBB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.85 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

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

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: Consolidated

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 healthy, marked by comfortable gearing and debt protection metrics. Gearing is at around 0.89 time as on March 31, 2022. Interest coverage and net cash accrual to total debt ratios are at 6 times and 27%, respectively, for fiscal 2022.

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

Bank limit utilisation is high at around 96 percent for the past twelve months ended Sept 2022. Cash accrual are expected to be over Rs 35 crores which are sufficient against term debt obligation of Rs 13 crore over the medium term. The group

maintains a cash and bank balance of around Rs.15 crore is maintained in the current account as on March 31, 2022 .In addition, it will be act as cushion to the liquidity of the company.Current ratio are moderate at 1.32 times on March 31, 2022.

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 factor

- Improvement in scale of operations and sustenance of operating margin at more than 12%
- Improvement in liquidity and financial risk profile

Downward factor

- 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 Company

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

Combined		2022	2021
As on / for the period ended March 31			
Operating income	Rs crore	503.76	305.62
Reported profit after tax	Rs crore	17.34	10.30
PAT margins	%	3.44	3.37
Adjusted Debt/Adjusted Net worth	Times	0.89	0.66
Interest coverage	Times	6.05	6.53

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure – Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings` complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	25	NA	CRISIL BBB+/Stable
NA	Cash Credit	NA	NA	NA	35	NA	CRISIL BBB+/Stable
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BBB+/Stable
NA	Working Capital Loan	NA	NA	NA	15	NA	CRISIL BBB+/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Polyhose India (Rubber) Private Limited	Full	Common management and same line of business
Vector Hydrolics	Full	Common management and same line of business

Annexure - Rating History for last 3 Years

	Current	2022 (History)	2021	2020	2019	Start of 2019

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	85.0	CRISIL BBB+/Stable		--	08-10-21	CRISIL BBB+/Stable	29-06-20	CRISIL BBB+/Stable	26-03-19	CRISIL BBB+/Stable	CRISIL BBB+/Stable
			--		--	06-10-21	CRISIL BBB+/Stable		--		--	--
			--		--	02-08-21	CRISIL BBB+/Stable		--		--	--
Non-Fund Based Facilities	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	25	HDFC Bank Limited	CRISIL BBB+/Stable
Cash Credit	35	Development Bank of Singapore	CRISIL BBB+/Stable
Cash Credit	10	Citibank N. A.	CRISIL BBB+/Stable
Working Capital Loan	15	HSBC Bank Plc	CRISIL BBB+/Stable

This Annexure has been updated on 28-Nov-2022 in line with the lender-wise facility details as on 8-Oct-2021 received from the rated entity.

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Criteria for Consolidation](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Himank Sharma Director CRISIL Ratings Limited D:+91 124 672 2152 himank.sharma@crisil.com</p> <p>Jayashree Nandakumar Associate Director CRISIL Ratings Limited D:+91 44 4226 3623 jayashree.nandakumar@crisil.com</p> <p>NEERAJ CHAND Manager CRISIL Ratings Limited B:+91 44 6656 3100 NEERAJ.CHAND@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesks@crisil.com</p>

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