SMERA RATINGS LIMITED

Pagan Paints & Chemicals Private Limited: Assigned

Name of the Instruments	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	3.50	SMERA B+/Stable (Assigned)
Letter of Credit	1.50	SMERA A4 (Assigned)
Bank Guarantee/Letter of Guarantee	0.10	SMERA A4 (Assigned)
Fund based/Non Fund Based (Proposed)	0.20	SMERA B+/Stable/A4 (Assigned)

SMERA has assigned long term rating of **'SMERA B+' (read as SMERA B Plus)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the above mentioned bank facilities of Pagan Paints & Chemicals Private Limited (PPCPL). The outlook is **'Stable'.**

The ratings derive comfort from the extensive experience of the promoters in the paint and chemical manufacturing business, reputed clientele and average financial risk profile. However, the ratings are constrained by customer concentration risk and modest scale of operations in a highly competitive and fragmented chemical industry. The ratings are also constrained by the working capital intensive operations and susceptibility of margins to raw material volatility.

PPCPL benefits from the experienced management. The promoters possess around two decades of experience in the abovementioned industry. The company caters to reputed clients including Hero, Mahindra & Mahindra, Honda to name a few. PPCPL has an average financial risk profile marked by gearing level of 1.29 times as on 31 March, 2015. The net worth of the company is supported by interest free unsecured loan, considered as quasi equity. The interest coverage ratio stands at 1.90 times for FY2014-15.

However, PPCPL operates on a modest scale with revenue of Rs.27.02 crore in FY2014-15 as against Rs.26.71 in FY2013-14. Also, the above ratings factor in customer concentration risk with around 62 per cent of sales made to top 10 customers. The company's operations are working capital intensive with the average bank utilisation limit at 97 per cent for six months ended February 2016. Further, the margins remain susceptible to raw material price volatility. The operating margin has improved from 3.76 per cent in FY2013-14 to 4.21 per cent for FY2014-15.

Rating Sensitivity Factors

- Scaling up operations while maintaining profitability
- Management of working capital funds

Outlook - Stable

SMERA believes that PPCPL will maintain a moderate business risk profile in the medium term owing to the established operations and extensive experience of the promoters in the business. The outlook may be revised to 'Positive' in case of significant improvement in profitability and accruals and efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant decline in profitability as well as accruals.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

PPCPL, incorporated in 1982 is engaged in the manufacture of paints and pre metal treatment chemicals at Gurgaon, Haryana. The registered office is located at New Delhi and the branch office at Pune.

The company reported profit after tax (PAT) of Rs.0.1 crore on net sales of Rs.27.02 crore in FY2015 as against PAT of Rs.0.17 crore on net sales of Rs.26.71 crore in FY2014.

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ABOUT SMERA

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