

Press Release

Pahwa International (PI)

03 November, 2017



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated	Rs. 39.00 crore
Long Term Rating	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Short Term Rating	SMERA A4 (Reaffirmed)

* Refer Annexure for details

SMERA has downgraded the long term rating to '**SMERA B+**' (read as **SMERA B plus**) from '**SMERA BB-**' (read as **SMERA double B minus**) and reaffirmed the short term rating of '**SMERA A4**' (read as **SMERA A four**) on the above bank facilities of Pahwa International (PI). The outlook is '**Stable**'.

The rating downgrade reflects significant decline in revenue and deterioration in the financial risk profile on account of decrease in tangible networth, cash accruals and coverage indicators.

PI, established in 1995, is a partnership firm engaged in the manufacturing and export of leather garments (leather jackets, trousers, blazers, overcoats etc) at New Delhi. The firm is led by Mr. Surendra Singh, Mr. Nirver Singh Pahwa and others. The manufacturing facility is located at Okhla with installed capacity of 72,000 garments per annum.

List of key rating drivers and their detailed description:

Strengths

Long track record of operations and experienced management: PI is engaged in the manufacturing and export of leather garments since 1995. The managing partners, Mr. Surendra Singh, Mr. Nirver Singh Pahwa, Mr. Fateh Singh Pahwa have around two decades of experience in the leather industry. This has enabled the firm to forge established relationships with its customers and suppliers.

Weaknesses

Decline in revenue

The firm is majorly into export of garments to European countries which accounts for 90 percent of revenue. Revenue declined by 31.16 per cent in FY2016-17 (Provisional) to Rs.26.49 crore from Rs.38.48 crore in FY2015-16 due to downturn in the global market. PI registered revenue of Rs.10.00 crore from April to August 2017.

Uneven profit margins: The profit margins of PI have been uneven during the period under study. The EBITDA margins declined to 6.54 per cent in FY2016 from 13.26 per cent in FY2015. However, the margins improved to 19.67 per cent in FY2017 mainly due to fluctuations in raw material prices. Further, the net profit stood at 4.56 percent in FY2017 (Provisional) as against 3.40 percent in FY2016 and 4.80 percent in FY2015.

Further, the profitability margin is also susceptible to fluctuations in forex rates as the firm exports around 90 percent of its revenue. The firm does not have any adequate hedging mechanism in place.

Below average financial risk profile

PI has below average financial risk profile marked by low and declining tangible networth of Rs.4.36 crore as on 31 March, 2016 from Rs.7.46 crore as on 31 March, 2015. Further, the tangible networth stood at Rs.5.23 crore on 31 March, 2017 (Provisional). The gearing increased to 6.31 times as on 31 March, 2016 as against 4.01 times as on 31 March, 2015. The gearing stood at 4.85 times as on 31 March, 2017 (Provisional). The total debt of Rs.25.37 crore as on 31 March, 2017 (Provisional) comprises working capital funding. The net cash accruals stood at 1.55 crore as on 31 March, 2017 (Provisional) as against 1.68 crore in FY2016 and 3.38 crore in FY2015.

The Interest coverage ratio stood at 1.42 times in FY2016-17 (Provisional) as against 1.48 times in FY2015-16.

Working capital intensive operations: The operations are working capital intensive as reflected by the high gross current asset (GCA) days of 607 in FY2017 as against 425 days in FY2016. This is mainly due to high inventory holding and debtor's days of 372 and 153 days for FY2017 and 245 and 78 days in FY2016. Further, the working capital limit has been fully utilised as confirmed by the banker.

SMERA believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Competitive and fragmented industry: The leather industry in India is highly fragmented and dominated by a large number of organised and unorganised players.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of PI.

Outlook: Stable

SMERA believes that PI will maintain a stable outlook over the medium term owing to its experienced management and long operational track record. The outlook may be revised to 'Positive' in case of improvement in revenue, profitability, capital structure and apt working capital management. Conversely, the outlook may be revised to 'Negative' in case of weakening of profitability margins or deterioration in the financial risk profile and elongation in working capital cycle management.

About the rated entity - Key financials

For FY2016-17 (Provisional), PI reported net profit of Rs.1.21 crore on operating income of Rs.26.49 crore, as against net profit of Rs.1.31 crore on operating income of Rs.38.48 crore in FY2015-16. The net worth stood at Rs.5.23 crore as on 31 March, 2017 compared to Rs.4.36 crore a year earlier.

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
03-Aug, 2017	Packing Credit*	Long Term	20.00	SMERA BB- (Indicative)
	FOBP	Long Term	9.00	SMERA BB- (Indicative)
	FOBLC	Short Term	10.00	SMERA A4 (Indicative)
17-Mar, 2016	Packing Credit	Long Term	20.00	SMERA BB-/Stable (Assigned; Suspension Revoked)
	FOBP	Long Term	9.00	SMERA BB-/Stable (Assigned; Suspension Revoked)
	FOBLC	Short Term	10.00	SMERA A4 (Assigned; Suspension Revoked)
18-Dec, 2015	Packing Credit	Long Term	16.00	SMERA BB (Suspended)
	FOBP	Long Term	6.00	SMERA BB (Suspended)
	FOBLC	Short Term	20.00	SMERA A4+ (Suspended)
19-Sep-2014	Packing Credit	Long Term	16.00	SMERA BB / Stable (Assigned)
	FOBP	Long Term	6.00	SMERA BB / Stable (Assigned)
	FOBLC	Short Term	20.00	SMERA A4+ (Assigned)

*Rs 3.00 crore bank facility of Packing Credit Limit is fully interchangeable with FOBP and FOUBP.

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Packing Credit	NA	NA	NA	20.00	SMERA B+/ Stable (Downgraded)
FOBP	NA	NA	NA	9.00	SMERA B+/ Stable (Downgraded)
FOBLC*	NA	NA	NA	10.00	SMERA A4 (Reaffirmed)

*Rs 3.00 crore bank facility of FOBLC is interchangeable with Packing Credit Limit.

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ABOUT SMERA

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