March 21, 2013 - Mumbai

Facilities / Instruments	Amount (Rs. Crore)	Rating
Cash Credit	35.00	SMERA BBB-/Stable (Assigned)
Term Loans	31.18	SMERA BBB-/Stable (Assigned)
Corporate Loan	5.00	SMERA BBB-/Stable (Assigned)
Letter of Credit / Bank Guarantee	24.65	SMERA A3 (Assigned)
Forward Contract	1.20	SMERA A3 (Assigned)
Proposed Long Term Facilities	0.97	SMERA BBB-/Stable (Assigned)

SMERA has assigned ratings of **'SMERA BBB-' (read as SMERA Triple B Minus) and 'SMERA A3' (read as SMERA A Three)** to Pioneer Polyleathers Private Limited's (PPPL) Rs.98.0 crore bank facilities. The outlook is **'Stable'**. The rating derives strength from the company's status as a major domestic producer of display flex, the integrated nature of its operations and presence of an anti-dumping duty on display flex. The ratings also benefit from PPPL's comfortable financial risk profile and fiscal benefits that the company derives from operations in Uttarakhand. The ratings are however constrained because of PPPL's limited track record, high customer concentration and vulnerability of the company's operating margins to fluctuations in raw material prices and foreign exchange rates.

PPPL, a part of the Action group of companies; is India's largest manufacturer of display flex (widely used in printing indoor and outdoor advertisements). The company commands a third of the domestic market share for display flex. PPPL also manufactures Knitted Polyester Fabric (KPF), a key raw material used in display flex. The captive facility meets around 25 per cent of the company's total KPF requirement and enables savings in raw material cost. In July 2010, GoI imposed a definitive anti-dumping duty for five years on Chinese display flex, thus lowering competition for PPPL's products.

PPPL also benefits from a comfortable financial risk profile marked by high margins (PAT margin of 5.08 per cent) and strong debt protection metrics (interest coverage ratio of around five times). The company also enjoys fiscal benefits resulting from having operations in Uttarakhand. PPPL is exempted from paying excise duty and central sales tax for ten years and benefits from a lower income tax incidence (exempt until March 31, 2013 and 70 per cent incidence till March 31, 2018). Moreover, the company's term loans are also eligible for capital subsidy and enjoy a five per cent interest subvention under the Technology Upgradation Fund Scheme.

PPPL's ratings are however constrained by the company's limited track record. PPPL commenced commercial production in April 2008 and during the initial two years, competition from cheaper Chinese imports constrained PPPL's operations and profitability. PPPL's operating margins are also vulnerable to fluctuations in raw material prices and foreign exchange rates (on account of import

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of KPF and un-hedged forex exposure). The company is also exposed to high customer concentration risk as close to 40 per cent of revenues are derived from M/s Max Flex and Imaging Systems Limited (though this is partly mitigated on account of a long term agreement between both the parties).

Rating Sensitivity Factors

- Changes in government regulations on anti-dumping duty
- Increased competition for the company's product
- Fluctuations in raw material prices and foreign exchange risks
- Increased working capital requirements without commensurate increase in operating profit margins

Outlook: Stable

SMERA believes that PPPL will maintain its credit risk profile on account of the company's significant market share in the display flex industry, improving economies of scale, presence of an anti-dumping duty and fiscal incentives resulting from operations in Uttarakhand. The outlook may be revised to 'Positive' if the company exhibits continuous growth in performance backed by higher operating margins. Conversely, the outlook may be revised to 'Negative' if there is any pressure resulting from increased competition, higher working capital, change in government regulations on anti-dumping duty and fiscal benefits that the company derives.

About the Company

PPPL was founded by Kapur family & Gupta family (owners of the Action Shoes group) in March 2005. The commercial production commenced in April 2008. The company manufactures display flex in Uttarakhand and sells the product ("Pioneer Flex" brand) through its 150+ dealers spread across India. The company also manufactures allied products such as foam boards and tarpaulins.

For FY 2011-12 PPPL reported a PAT of Rs.12.3 crore on a total income of Rs. 242.9 crore, as compared to a PAT of Rs.10.5 crore on a total income of Rs.160.7 crore for FY 2010-11. For the nine months ended December 31, 2012, PPPL reported a PAT of Rs.21.6 crore on a total income of Rs.219.7 crore (provisional).

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