

October 04th, 2013

Facilities / Instruments	Amount (Rs. Crores)	Ratings
Cash Credit	35.00	SMERA BBB/Stable (upgraded from SMERA BBB-/Stable)
Term Loans	31.18	SMERA BBB/Stable (upgraded from SMERA BBB-/Stable)
Corporate Loan	5.00	SMERA BBB/Stable (upgraded from SMERA BBB-/Stable)
Letter of Credit/ Bank Guarantee	24.65	SMERA A3+ (upgraded from SMERA A3)
Forward Contract	1.20	SMERA A3+ (upgraded from SMERA A3)
Proposed Long Term Facility	0.97	SMERA BBB/Stable (upgraded from SMERA BBB-/Stable)
Total	98.00	

SMERA has upgraded bank loan ratings of Pioneer Polyleathers Private Limited (PPPL) to '**SMERA BBB/Stable/SMERA A3+**' from '**SMERA BBB-/Stable/SMERA A3**'. The upgrade in the ratings of PPPL factors in the significant improvement in the company's financial risk profile marked by lower leverage and better-than-expected debt protection metrics. The upgrade in ratings is further supported by the company's healthy increase in market share and profitability.

The ratings continue to derive strength from the company's status as a major domestic producer of display flex with integrated manufacturing operations. The ratings continue to factor in the benefits of the anti-dumping duty on display flex and the fiscal benefits available to the company in Uttarakhand. However, the ratings continue to remain constrained on account of the company's high customer concentration risk and vulnerability to fluctuations in raw material prices and foreign exchange rates. The ratings are also constrained by the inherent cyclicity in the advertising industry.

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 over 40 per cent market share of display flex in the domestic market. PPPL also manufactures Knitted Polyester Fabric (KPF), a key raw material used in production of display flex. The captive facility meets around 25 per cent of the company's total KPF requirement, which has enabled substantial cost savings in FY2012-13 (refers to financial year, April 01 to March 31). In July 2010, the Government of India (GoI) imposed a definitive anti-dumping duty (for five years) on Chinese display flex, thus lowering the competitive pressure on the company.

PPPL has a strong financial risk profile marked by healthy net profit margin of 10.21 per cent in FY2012-13. The company has low leverage at 0.96 times as on March 31, 2013 with comfortable interest coverage ratio of 5.51 times and net cash accruals-to-total debt of 0.57 times in FY2012-13.

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PPPL is entitled to various fiscal benefits on account of its manufacturing facility in Uttarakhand. The company is exempted from paying excise duty and income tax until March 31, 2017. PPPL is also eligible for interest subvention under the Technology Upgradation Fund Scheme (TUFS).

PPPL's ratings are constrained by high customer concentration risk. The company derives about 40 per cent of its total revenues from M/s. Max Flex and Imaging Systems Limited. PPPL is also exposed to the risk of fluctuations in raw material prices and adverse movements in foreign exchange rates (on account of import of KPF and un-hedged forex exposure). However, the company has been successful in passing on incremental costs to its customers. PPPL is also exposed to the inherent cyclicity in the advertising industry. The company is vulnerable to reduction in advertising expenditure on account of economic slowdown.

Rating Sensitivity Factors

- Changes in government regulations on anti-dumping duty
- Fluctuations in raw material prices and foreign exchange rates
- Working capital management and bank limit utilization
- Higher competition

Outlook: Stable

SMERA believes that PPPL will continue to maintain its credit risk profile on account of improving market share, existing anti-dumping duty on display flex imports and the fiscal incentives available in Uttarakhand. The outlook may be revised to 'Positive' if the company achieves sustainable growth in performance backed by higher-than-anticipated improvement in profitability and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of increase in competition, higher working capital requirement and unfavourable changes in government regulations.

About the company

PPPL was founded in March 2005 by the Kapur family and the Gupta family (owners of the Action Group). The company commenced commercial production in April 2008. PPPL manufactures and sells display flex under 'Pioneer Flex' brand. The company also manufactures foam boards and tarpaulins. PPPL has a manufacturing unit in Uttarakhand. The company also has over 150 dealers across India.

In FY2012-13, PPPL reported PAT of Rs.31.04 crores on net sales of Rs.303.50 crores as compared with PAT of Rs.12.34 crores on net sales of Rs.242.71 crores in FY2011-12. In the first quarter of FY2013-14, PPPL reported net sales of Rs.82.64 crores as compared with net sales of Rs.75.17 crores in the corresponding quarter of the previous year. The company's net worth stands at Rs.72.40 crores as on March 31, 2013 as compared with Rs.41.77 crores a year earlier.

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