# Pioneer Polyleathers Private Limited (PPPL)

*Rating Rationale*

SMERA RATINGS LIMITED

**August 22, 2014**

| Facilities | Amount (Rs. Crore) | Ratings |
|---|---|---|
| Cash Credit | 48.00 | SMERA BBB+/Stable (upgraded from SMERA BBB/Stable) |
| Term Loans | 39.82 | SMERA BBB+/Stable (upgraded from SMERA BBB/Stable) |
| Corporate Loan | 3.00 | SMERA BBB+/Stable (upgraded from SMERA BBB/Stable) |
| Letter of Credit/ Bank Guarantee | 17.00 | SMERA A2 (upgraded from SMERA A3+) |
| Forward Contract | 0.65 | SMERA A2 (upgraded from SMERA A3+) |
| BG for EPCG | 0.42 | SMERA A2 (upgraded from SMERA A3+) |

SMERA has upgraded the bank loan ratings of Pioneer Polyleathers Private Limited (PPPL) to **'SMERA BBB+/Stable/SMERA A2'** from **'SMERA BBB/Stable/SMERA A3+'**.

The upgrade reflects significant improvement in the company's business and financial risk profiles. PPPL registered healthy revenue growth of ~25 per cent in FY2013–14 (refers to financial year, April 01 to March 31). The company's net cash accruals increased from Rs.40.08 crore in FY2012–13 to Rs.45.15 crore in FY2013-14. PPPL is expected to maintain strong revenue growth and healthy profitability over the medium term on the back of healthy demand for PVC display flex. The company's tangible net worth increased from Rs.72.40 crore as on March 31, 2013 to Rs.107.06 crore as on March 31, 2014. PPPL's leverage (debt-equity ratio) has improved from 0.96 times as on March 31, 2013 to 0.66 times as on March 31, 2014. The company's interest coverage ratio is healthy at 5.46 times in FY2013-14. SMERA believes PPPL will maintain a strong financial risk profile over the medium term on the back of healthy accretion to reserves.

PPPL's ratings continue to derive strength from the company's established market position in the PVC display flex segment. The ratings also derive strength from the company's integrated manufacturing operations and widespread distribution network. The ratings factor in benefits of fiscal incentives available to the company in Uttarakhand. Moreover, anti-dumping duty on import of PVC display flex from China mitigates the risk of import competition. The ratings remain constrained by the company's exposure to customer concentration risk in an inherently cyclical advertising industry. The ratings also remain constrained by the susceptibility of the company's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates. The ratings factor in risks associated with the company's working capital-intensive operations.

PPPL, a part of the Action Group of companies, is one of the India's largest manufacturers of PVC display flex (widely used in printing of advertisements). PPPL also manufactures Knitted Polyester Fabric (KPF), a key raw material used in production of PVC display flex. PPPL's captive facility meets around 22 per cent of the company's total KPF requirement, which has enabled substantial cost savings over the last two years. PPPL plans to undertake capex to increase the KPF production capacity. The additional capacity is likely to be commissioned in Q4FY2014-15 (refers to period, January 01 to March 31) and will enable the company to meet most of its KPF demand through captive production.

PPPL's strong financial profile is marked by healthy net profit margin of 9.24 per cent in FY2013–14 (10.21 per cent in FY2012–13). The company's leverage is low at 0.66 times as on March 31, 2014. PPPL has healthy coverage indicators, as reflected in interest coverage ratio of 5.46 times and net cash accruals to total debt (NCA/TD) ratio of 0.64 times in FY2013–14. The company is entitled to several fiscal benefits in Uttarakhand. PPPL is exempted from excise duty and income tax till April 01, 2018.

PPPL is exposed to high customer concentration risk. The company's top five customers account for ~40 per cent of the total sales in FY2013-14. The company's profit margins are susceptible to increase in raw material prices (DOP and PVC resin). Moreover, PPPL is exposed to foreign exchange fluctuation risk arising on account of import of key raw material (KPF) from China. PPPL is also exposed to the inherent cyclicality in the advertising industry. The company's operations are susceptible to reduction in advertising spends amidst economic slowdown. Going forward, the increasing focus on digital and online media may adversely impact the print advertisement segment.

PPPL's operations are working capital-intensive. The company's gross current assets (GCA) have increased from ~106 days in FY2012–13 to ~138 days in FY2013–14 on account of increase in collection period. PPPL's collection period has increased from 50 days in FY2012–13 to 71 days in FY2013–14. However, the company's average bank limit utilisation is comfortable at ~77 per cent during January 2013 to May 2014.

**Rating sensitivity factors**

- Removal of anti-dumping duty on import of PVC display flex from China
- Higher competition in the domestic market
- Working capital management and bank limit utilization
- Fluctuations in raw material prices and foreign exchange rates

**Outlook: Stable**

SMERA believes PPPL will continue to maintain a stable credit risk profile over the medium term. The company will continue to benefit from its established market position. PPPL will also benefit from the fiscal benefits available in Uttarakhand and the existing anti-dumping duty on display flex imports. The outlook may be revised to 'Positive' in case the company registers significant growth in revenues while achieving higher-than-expected improvement in profitability and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial profile on account of increase in competition, higher working capital requirements and unfavourable changes in government regulations. The outlook may also be adversely affected by deterioration in the company's debt protection metrics on account of higher-than-expected debt-funded capital expenditure.

**About the company**

PPPL, incorporated in March 2005, is a Noida-based company promoted by members of the Kapur family and the Gupta family (owners of the Action Shoes group). PPPL is engaged in manufacturing of PVC display flex, which is widely used for printing outdoor advertisements and billboards. The company commenced commercial production in April 2008. PPPL sells its products under the brand name of 'Pioneer Flex'. The company has ~150 dealers across India.

For FY2013–14, PPPL reported profit after tax (PAT) of Rs.35.09 crore on operating income of Rs.379.70 crore, as compared with PAT of Rs.31.04 crore on operating income of Rs.303.93 crore for FY2012–13. Further, the company reported net sales of ~Rs.72.00 crore in Q1FY2014-15 (refers to period, April 01 to June 30), as compared with net sales of Rs.83.10 crore in the corresponding period of the previous year. PPPL's tangible net worth stood at Rs.107.06 crore as on March 31, 2014, as compared with Rs.72.40 crore a year earlier.

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