

Press Release

Pal Enterprises (PE)

27 June, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.15.00 Crore
Short Term Rating	SMERA A4 (Assigned)

**Refer Annexure for details*

SMERA has assigned short term rating of '**SMERA A4**' (read as **SMERA A four**) to the above mentioned bank facilities of Pal Enterprises.

The Delhi-based Pal Enterprises, a partnership concern was established by Mr. Amreek Singh Kapoor (Partner) Gulbir Singh Chopra (Partner) and Surjeet Singh Kapoor (Partner). Pal Enterprises manufactures leather garments (leather jackets, trousers, pants etc.) for men and women as also leather accessories (bags and belts). The installed capacity stands at 20000 units per month. The firm exports its products mainly to European countries, Canada, Japan and USA.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced management: Pal Enterprises (PE) was established in 1989 by Mr. Amreek Singh Kapoor, Mr. Gulbir Singh Kapoor and Mr. Surjeet Singh Kapoor. The promoters possess experience of almost three decades in the leather industry. The firm has been able to establish relationships with reputed clients such as Zara, Gucci, Marks & Spencer, Leo Cotton among others.

Diversified product profile: The firm manufactures a range of leather products such as jackets, trousers, hot pants, caps and ties to name a few.

Weaknesses:

Modest financial risk profile: The financial risk profile is marked by modest debt protection measures and low net worth base. The interest coverage ratio stood modest at 1.35 times in FY2016-17 (Provisional) against 1.65 times in FY2015-16. The rating also factors in the low net worth of Rs.5.68 crore on 31 March, 2017 (Provisional) as against Rs.5.53 crore on 31 March, 2016. The net worth includes unsecured loans of Rs.2.00 crore from promoters and is subordinated to bank debt; hence SMERA has treated them as quasi equity. The net cash accrual by total debt (NCA/TD) stands at 0.06 percent in FY2017 (Provisional) compared to 0.11 percent in FY2016. Further, the gearing of the firm stands moderate at 1.66 times in FY2017 (Provisional). The moderate gearing is on account of low Net worth of Rs.5.68 crore as against total debt of Rs.9.44 crore in FY2016-17. The total debt includes working capital facility of Rs. 7.13 crore and unsecured loan of Rs.2.32 crore.

Stretched working capital cycle: The operations are working capital intensive marked by gross current assets (GCA) of 267 days in FY2017 as against 199 days in the previous year. The high GCA days in FY2017 is on account of stretched inventory of 245 days. However, the debtor

days in FY2017 stands comfortable at 12 days due to better realisation from customers. Further, the firm's liquidity profile is stretched as it fully utilises its working capital limits.

Competitive and fragmented nature of industry: The firm is exposed to intense competition in the leather industry from organised as well as unorganised players.

Analytical approach: SMERA has considered the standalone business and financial risk profile of firm.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

About the Rated Entity

For FY2016-17 (Provisional), Pal Enterprises reported net profit of Rs.0.37 crore on total income of Rs.22.51 crore as against net profit after tax of Rs.0.75 crore on total income of Rs.32.53 crore a year earlier. The net worth stood at Rs.5.68 crore (includes quasi equity of Rs.2.00 crore) as on 31 March, 2017 (Provisional), as compared with Rs.5.53 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NA

Rating History for the last three years:

Name of Instrument /Facilities	FY 2018 (Current)			2017		2016		2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Packing Credit/ PCFC**	ST	7.00	SMERA A4 (Assigned)	-	-	-	-	-	-
FOBNLC/FOUB NLC**	ST	3.50	SMERA A4 (Assigned)	-	-	-	-	-	-
FOBP/FOUBP*	ST	(1.50)	SMERA A4 (Assigned)	-	-	-	-	-	-
Foreign Letter of Credit	ST	5.00	SMERA A4 (Assigned)	-	-	-	-	-	-

*Fully Interchangeability of Rs.1.50 crore allowed between FOBP/FOUBP and FOBNLC/FOUBNLC

**Total Fund based Facilities Ceiling is up to Rs. 10.00 cr

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

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/ Outlook
Packing Credit/PCFC**	N.A	N.A	N.A	7.00	SMERA A4 (Assigned)
FOBNLC/FOUBNLC**	N.A	N.A	N.A	3.50	SMERA A4 (Assigned)
FOBP/FOUBP*	N.A	N.A	N.A	(1.50)	SMERA A4 (Assigned)
Foreign Letter of Credit	N.A	N.A	N.A	5.00	SMERA A4 (Assigned)

*Fully Interchangeability of Rs.1.50 crore allowed between FOBP/FOUBP and FOBNLC/FOUBNLC

**Total Fund based Facilities Ceiling is up to Rs. 10.00 cr.

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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