

Press Release

Parth Enterprises

July 13, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 7.54 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) on the Rs. 7.54 crore bank facilities of Parth Enterprises. The outlook is '**Stable**'.

Parth Enterprises (PE), established in 2006, is a Maharashtra-based partnership firm engaged in the manufacture of notebooks at Palghar, Maharashtra. The firm was promoted by Mr. Dinesh Shah and Mrs. Parul Shah and has production capacity of 2.00 crore pieces per annum. The firm sells notebooks to a wide network of distributors in Maharashtra, Gujarat and Karnataka.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The firm is engaged in the manufacturing of notebooks for more than a decade. The promoter, Mr. Dinesh Shah has around three decades of experience in the printing and publication industry. The experienced management and established presence in the industry has helped the firm maintain long term relations with customers and suppliers.

- **Improvement in revenue**

The firm has reported revenue growth of around 60 percent with operating income of Rs. 32.05 crore in (Provisional) in FY2017 as against Rs.20.66 crore in the previous year. This is on account of increase in the installed capacity to 2 crore pieces per annum from 1.5 crore. Further, the firm has also undertaken automation of the manufacturing process which is expected to reduce the overall manufacturing cost. Hence, SMERA believes that the revenue will grow moderately on the back of higher capacity utilisation.

Weaknesses

- **Highly competitive and fragmented industry**

PE operates in a highly competitive and fragmented industry characterised by several organised as well as unorganised players.

- **Vulnerability of profitability to raw material price volatility**

The paper industry as a whole remains vulnerable to various factors including fluctuations in the prices of paper and cellulose which may have a direct impact on operations and profitability.

- **Average financial risk profile**

PE's financial risk profile is average marked by net worth of Rs. 2.13 crore as on 31 March, 2016 as against Rs.0.33 crore as on 31 March, 2015. Further, the partnership constitution of the firm makes it vulnerable to risk of capital withdrawal. The gearing stood at 2.46 times as on 31 March, 2016 compared to 8.62 as on 31 March, 2016. The total debt of Rs. 6.04 crore as on 31 March, 2016 includes short term debt of Rs. 3.71 crore and long term borrowings of Rs. 2.33 crore. The interest

coverage ratio (ICR) is comfortable at 3.56 times in FY2015-16 as against 3.96 times in FY2014-15. However, going forward the gearing position of the firm is expected to improve moderately on account of improvement in networth and repayment of term loan.

• Working capital intensive operations

The operations are working capital intensive evident from the high gross current asset days (GCA) at 124 for FY2016 as against 86 days in the previous year. The reason for stretched GCA days is the elongation in the inventory days at 49 for FY2016 as against 38 in the previous year. Further, the debtor days stretched to 55 days in FY2016 as against 46 days in the previous year. However, the liquidity position of the firm is comfortable. The average cash credit limit utilisation stood at ~65 percent for the last six months ended as 31 May, 2017.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of PE.

Outlook: Stable

SMERA believes that PE will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of significant improvement in net cash accruals or capital structure while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the firm registers deterioration in its liquidity position or financial risk profile on account of major debt funded capital expenditure.

About the Rated Entity - Key Financials

For FY2016, Parth Enterprises reported Profit after Tax (PAT) of Rs.0.10 crore on total operating income of Rs.20.66 crore compared with PAT of Rs 0.17 crore on total operating income of Rs.20.39 crore in FY2015. The tangible net worth stood at Rs. 2.31 crore as on March 31, 2016 as against Rs. 0.33 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.40	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	16-Nov-2022	1.05	SMERA BB- / Stable

Proposed	Not Applicable	Not Applicable	Not Applicable	0.09	SMERA BB- / Stable
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ABOUT SMERA

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