

Press Release

Parth Enterprises

September 05, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 24.00 Cr. (Enhanced from Rs. 7.54 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 7.54 crore bank facilities of Parth Enterprises (PE). Further, Acuité has assigned '**ACUITE BB-**' (read as **ACUITE double B minus**) to Rs. 16.46 crore of PE. The outlook is '**Stable**'.

The rating continues to draw comfort from the established track record and experienced promoters. The rating also factors the moderate financial risk profile of the firm. However, the aforementioned strengths are partially offset by the susceptibility of the profitability to volatility in raw material prices and presence of the firm in a highly competitive and fragmented paper & printing industry. The rating also factors the working capital intensive nature of operations.

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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Parth Enterprises for arriving at the rating.

Key Rating Drivers:

Strengths

• Established track record of operation and experienced promoters

PE was established in 2006 as a partnership firm, thus having a track record of over ten years in similar line of business. Mr. Dinesh Shah, promoter, has three decades of experience in the printing and publication industry. Experienced management has helped the firm to maintain healthy and long standing relations with the customers and suppliers.

• Moderate financial risk profile

The financial risk profile of the firm continues to remain moderate marked by tangible net worth of Rs.5.22 crore as on 31 March, 2018 (Provisional) as against Rs.3.13 crore in the previous year. The debt to equity ratio (Gearing) is moderate as same stood at 2.00 times as on March 31, 2018 (Provisional) as against 1.88 times in the previous year. The total liabilities to tangible net worth has increased to 3.59 times as on 31 March, 2018 (Provisional) as against 3.12 times as on 31 March, 2017. PE reported interest coverage ratio (ICR) of 3.37 times for FY2018 (Provisional) as against 2.81 times in the previous year. However, the debt service coverage ratio is inadequate at 2.21 times for FY2018 (Provisional) as against 1.95 times for FY2017. The debt to EBITDA stood at 3.41 times for FY2018 (Provisional) as against 3.35 times in the previous year. The firm is undertaking capex plan with total project cost of Rs.17.33 crore which is expected to be funded through term loan of Rs.13.00 crore and remaining through promoter's fund.

Weaknesses

• Working Capital intensive nature of operations

The operations are working capital intensive evident from the high Gross Current Asset (GCA) days of 149 for FY2018 (Provisional) as against 110 days in the previous year. The reason for stretched GCA days is the elongation in the inventory days at 74 for FY2018 (Provisional) as against 44 days in the previous year. Further, the debtor days stretched to 73 in FY2018 (Provisional) as against 57 days in the previous year. However, the liquidity position of the firm is comfortable. The average cash credit limit utilisation stood at ~70 percent for the last six months ended as 31 June, 2018.

• Fragmented and competitive nature of industry

PE operates in highly competitive and fragmented industry characterised by numerous large players as well as numerous unorganised players.

• Vulnerability of profitability to volatility in raw material prices

The paper industry as a whole remains vulnerable to various factors such as fluctuations in the prices of paper and cellulose. Any significant changes in such factors will have direct impact on the business operations and profitability of the firm.

• Partnership constitution

The partnership constitution of the firm makes it vulnerable to the risk of capital withdrawal.

Outlook: Stable

Acuite believes that PE will maintain a 'Stable' outlook over the medium term owing to its experienced management and established presence in the paper and printing industry. The outlook may be revised to 'Positive' in case of significant improvement in net cash accruals or capital structure while effectively managing its liquidity position. 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

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	52.15	32.85	20.66
EBITDA	Rs. Cr.	3.06	1.74	1.31
PAT	Rs. Cr.	1.22	0.27	0.10
EBITDA Margin	(%)	5.87	5.31	6.36
PAT Margin	(%)	2.34	0.82	0.47
ROCE	(%)	21.67	12.47	10.37
Total Debt/Tangible Net Worth	Times	2.00	1.88	2.46
PBDIT/Interest	Times	3.37	2.81	3.56
Total Debt/PBDIT	Times	3.41	3.35	3.93
Gross Current Assets (Days)	Days	149	110	124

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Jul-2017	Cash Credit	Long Term	6.40	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long Term	1.05	ACUITE BB-/ Stable (Assigned)
	Proposed Term Loan	Long Term	0.09	ACUITE BB-/ Stable (Assigned)

***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	10.00 (enhanced from Rs. 6.40 crore)	ACUITE BB-/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.78 (reduced from Rs. 1.05 crore)	ACUITE BB-/ Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	13.22 (enhanced from Rs. 0.09 crore)	ACUITE BB-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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