

Press Release

Paxal Corporation

06 March, 2018



Rating Assigned

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs.21.00 Cr. |
| Long Term Rating | SMERA BB-/ Outlook: Stable |
| Short Term Rating | SMERA A4+ |

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating to '**SMERA BB-**' (read as SMERA double B minus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 21.00 cr. bank facilities of Paxal Corporation. The outlook is '**Stable**'.

Paxal Corporation (PC), established in 1950 by Mr. Baboothmal Bhandari and family is a Bangalore based partnership firm. The firm is mainly involved in trading of steel products such as sheets, coils, strips etc. The firm, led by the second generation entrepreneur, Mr. B. Champalal Bhandari, son of Mr. Baboothmal, caters to multiple small traders and manufacturers in Bangalore and some parts of Tamil Nadu. PC imports stainless-steel from various suppliers in Malaysia, Spain, Vietnam, China etc.

Key rating drivers

Strengths

Long track record of operations and experienced management: PC has more than six decades of operations in the steel products trading business. The established presence in the market has helped the company develop and maintain long standing relations with suppliers and customers. The managing partner, Mr. B. Champalal Bhandari possess three decades of experience in the industry.

Moderate financial risk profile: The financial risk profile of the firm is moderate marked by low networth and modest gearing and debt protection measures. The networth levels of the company stood at Rs. 8.80 crore as on 31 March, 2017 as against Rs. 7.64 crore as on 31 March, 2016. The networth includes unsecured loan from promoters of Rs. 2.65 crore. SMERA has treated the unsecured loans as quasi equity as this amount is subordinated to bank debt. The gearing ratio stood at 1.30 times as on 31 March, 2017 as against 1.77 times as on 31 March, 2016. The total debt of Rs. 11.46 crore includes working capital funds. The total liabilities to tangible networth (TOL/TNW) stood at 1.61 times as on 31 March, 2017 as against 1.97 times in the previous year. The interest coverage ratio (ICR) stood at 1.62 times for FY2017 and debt service coverage ratio (DSCR) stood at 1.58 times. The net cash accruals to total debt (NCA/TD) stood at 0.08 times in FY2017 as against 0.04 times in FY2016.

Weaknesses

Modest scale of operation: In spite of being in operation since 1950 PC operates at moderate scale with operating income of Rs. 44.72 crore in FY 2017 and Rs.34.86 crore in FY 2016. Further, it has reported Rs. 21.25 in FY 2018 (8M Provisional). The current order book position stands at Rs.4.00 crore.

Working capital intensive operations: The operations are working capital intensive in nature marked by gross current asset days (GCA) of 160 days in FY2017 and 204 for FY 2016. This is on account of high debtor days of 123 days in FY 2017 and 120 days for FY 2016. The inventory days stood at 22 in FY2017 and 56 days in FY2016. Further, the average cash credit utilisation stood at ~83.27 per cent for last six months ended October, 2017.

Low profitability margins and susceptibility of profit to raw material prices: PC reported EBITDA margin of 4.06 percent for FY2017 as against 5.03 percent in the previous year. The decline in the margins is mainly on account of increase in raw material prices. However, the net profit margin is thin at 1.83 percent for FY2017 as against 1.52 per cent in the previous year mainly on account of high interest cost on bank borrowings and trading nature of operations. Further, the margins of the company are susceptible to fluctuations in the raw material prices i.e. steel prices.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Paxal Corporation to arrive at the rating.

Outlook – Stable

SMERA believes that the outlook of PC will remain stable owing to its established presence in the trading industry and extensive experience of the promoter. The outlook may be revised to 'Positive' if the firm reports significant growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial risk profile due to higher than expected working capital requirement.

About the Rated Entity – Key Financials

For FY2016-17, PC reported net profit of Rs.0.82 crore on net sales of Rs.44.72 crore as against net profit of Rs.0.53 crore on net sales of Rs.34.86 crore in the previous year. The networth stood at Rs. 8.80 crore in FY 2016-17 as against Rs. 7.64 crore in previous year.

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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>

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

None

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. Crore) | Ratings/Outlook |
|-------------------------|------------------|----------------|----------------|-------------------------------|-----------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA BB-/Stable (Assigned) |
| Import Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 11.00 | SMERA A4+ (Assigned) |

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ABOUT SMERA

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