

Press Release

Paramount Powders Private Limited

May 17, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 13.05 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 13.05 crore bank facilities of Paramount Powders Private Limited (PPPL). The outlook is '**Stable**'.

The rating reaffirmation is based on long track record of operations, moderate working capital management and comfortable financial risk profile, though constrained by stagnant revenues and declining profitability. Its gross current assets (GCA) days are moderate at about 160 days. PPPL's financial risk profile is comfortable with debt-to-equity (gearing) of below 1 time, and total outside liabilities to tangible net worth (TOL/TNW) at about 2 times historically. Its revenues are stagnant at about Rs.54 crore, though improved to about Rs.60 crore in FY2019 (Provisional). However, stagnant revenues and increasing raw material prices lead to decline in the profitability to about 3 per cent against 5 per cent in the past.

PPPL is a Delhi based company, established in 1997 and promoted by Mr. Tarlochan Singh Badyal. It is engaged in manufacturing of polyurethanes and thermosetting powder coating. The company has an installed capacity of 3000 MT and is currently fully utilised. The products are widely used in the industries of Automobile, Telecommunications and Engineering, among others. The company caters directly to domestic market and through network of around 25 distributors spread across several states. The company has manufacturing unit at Gurgaon (Haryana).

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of PPPL to arrive at the rating.

Key Rating Drivers

Strengths

• Comfortable financial risk profile

The financial risk profile is marked by comfortable gearing and TOL/TNW, and moderate debt protection metrics. The gearing and TOL/TNW are comfortable at 0.77 and 2.07 times as on March 31, 2018 against 0.82 and 2.10 times as on March 31, 2017. The net worth is modest at Rs.9.35 crore as on March 31, 2018 as against Rs.9.13 crore as on March 31, 2017, an increase owing to accretion to reserves. Of the total debt of Rs.7.23 crore, short term debt consists of Rs.6.51 crore and long term debt of Rs.0.71 crore. The company did not incur any capital expenditure in the FY2018 or FY2019. The company plans no Capex as such for the next two years.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.23 times and 0.11 times respectively in FY2018. Net cash accruals for FY2018 stood at Rs.0.82 crore. Further, the company's cash accruals are expected to improve and be in the range of Rs.1.00-1.50 crore with repayment obligations amounting to Rs.0.30-0.50 crore for the period of FY2020-22. Acuite believes that with moderate accruals and no significant capex plans, the financial risk profile is expected to be at similar levels over the medium term.

• Experienced promoters and long track record of operations

PPPL, incorporated in 1997, is engaged in manufacturing of Polyurethane and Thermosetting powder coating. The Board of Director comprises of Mr. Tarlochan Singh Badyal, Mr. Avtar Singh, Mr. Manish Jain and Mr. Gurpreet Singh. Mr. Tarlochan Singh Badyal has an overall experience of three decades in manufacturing of coating powder. Experience of the management and the extensive track record of operations of PPPL have helped the company in establishing healthy relations with its customers and suppliers in the domestic market. Acuite believes that PPPL continues to enjoy the promoters experience in improving its business risk profile over the medium term.

Weaknesses

• Moderate working capital management

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 171 days as on March 31, 2018 as against 162 days as on March 31, 2017. The company maintains two months inventory comprising both raw material and finished product, and offers credit of about three months to its clientele; resulted in receivable days of about 105 as on March 31, 2018 (105 days in FY2017). The credit terms are in the range of 90-100 days. Moderate working capital management along with moderate utilisation of its working capital limits at about 71 percent over the past six months ended March 2019. Acuite believes that PPPL's operations continue to be at similar levels basis the manufacturing and distribution cycle.

• Fluctuating operating margins and highly competitive and fragmented industry

The raw materials used to manufacture PPPL's products are based out of petroleum, which is exposed to price fluctuations. Hence, the operating margins are exposed to fluctuation due to change in prices of raw materials. Its profitability margins have dropped significantly from about 5.2 per cent in FY2017 to about 3 per cent in FY2019 (Provisional). Volatile margins are owing to its presence in highly competitive industry with competition from other organised and unorganised players.

Liquidity Position:

Liquidity profile of PPPL is moderate reflected by moderate bank line utilisation. PPPL has reported cash accruals of Rs.0.82 crore in FY2018. It is expected to generate cash accruals in the range of Rs.1.00-1.50 crore over the medium term against which its repayment obligations are about Rs.0.30-0.50 crore. Its working capital limits are moderately utilised about 71 per cent for the last six months through March 2019. The current ratio stood moderate at 1.32 times in FY2018. Acuite believes that the cushion in its accruals is expected to be absorbed into its incremental working capital operations and liquidity continues to be moderate.

Outlook: Stable

Acuite believes that PPPL will maintain a 'Stable' business risk profile over the medium term. The concern will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the concern registers healthy growth in its revenues while achieving sustained improvement in operating margins. Conversely, the outlook may be revised to 'Negative' in case of any significant decline in the profitability margins, or in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	53.99	53.18	43.41
EBITDA	Rs. Cr.	1.47	2.76	2.14
PAT	Rs. Cr.	0.27	1.00	0.39
EBITDA Margin	(%)	2.72	5.20	4.92
PAT Margin	(%)	0.51	1.88	0.91
ROCE	(%)	6.70	16.02	23.09
Total Debt/Tangible Net Worth	Times	0.77	0.82	0.90
PBDIT/Interest	Times	2.23	2.74	1.93
Total Debt/PBDIT	Times	4.38	2.54	3.22
Gross Current Assets (Days)	Days	171	165	205

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
14-Mar-2018	Cash Credit	Long Term	8.00	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Assigned)
	Proposed Cash Credit	Long Term	0.05	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	8.00	ACUITE BB+ / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BB+ / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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