

## Press Release

### Permanent Magnets Limited

February 17, 2023

### Rating Upgraded



| Product                                   | Quantum (Rs. Cr) | Long Term Rating               | Short Term Rating     |
|---|------------------|--------------------------------|-----------------------|
| Bank Loan Ratings                         | 16.86            | ACUITE BB+   Stable   Upgraded | -                     |
| Bank Loan Ratings                         | 17.62            | -                              | ACUITE A4+   Upgraded |
| <b>Total Outstanding Quantum (Rs. Cr)</b> | 34.48            | -                              | -                     |

### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE C**' (read as **ACUITE C**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A4 plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 34.48 crore bank facilities of Permanent Magnets Limited (PML). The outlook is '**stable**'.

### Rationale for upgrade

The rating has been upgraded basis the improvement in operating performance of the company, healthy financial risk profile and timely servicing of debt obligations. The operating income grew at a compounded annual growth rate (CAGR) of 6.76% over the last three years through FY2022. The firm in the current year has already recorded revenue of Rs.80 crore till September 2022 i.e., 62.02% percent of the company's operating income in FY2022. The operating profitability has remained stable between 21.50-23 percent during the period FY2020 – FY2022. However, the rating remains constrained on account of the working capital intensive nature of operations.

### About the Company

Mumbai based, PML was incorporated in the year 1960, by Mr. Kantilal Morarji Desai, which was sold off to Taparia Group in the year 1965. It is the flagship company of the Group. PML is engaged in manufacturing of Alnico (Aluminium, Nickel and Cobalt) Magnets & Magnetic assemblies, parts and accessories of Electricity Meters, Gas Meters and Electrical vehicles. The company has its manufacturing facility at Mira road, Mumbai and is currently promoted and managed by Taparia family

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of PML to arrive at this rating

### Key Rating Drivers

## Strengths

### Experienced management and established track record of operations

PML is in operations since 1960 and has market presence in India as well as the USA, Europe and Brazil. The Promoters, Mr. Sharad Taparia (Managing Director), Mr. Mukul Taparia (Non-Executive Director) and Ms. Sunaina Taparia (Non-Executive Director) have more than five decades of experience in the magnet industry. The promoters are assisted by the second line of management who are well experienced in the industry. On the back of the experienced management, the company has been able to maintain its long-term association with customers and suppliers with the few of the customers been associated for more than two to three decades.

The operating income of PML stood at Rs.129.75 crore in FY2022 as against Rs.116.81 crore in FY2021. Further, the company already achieved Rs.80.54 crore for 9MFY2023 till September 2022. The operating margin of the company improved to 22.76% in FY2022 as against 21.85% in FY2021. Further, the operating margin for 9MFY2023 stood at 22.80%

Acuité expects the company to continue benefiting from its established market presence and healthy relationship with customers and suppliers in the long run.

### Healthy financial risk profile

The financial risk profile of the company is healthy marked by moderate net worth, comfortable coverage ratios and low gearing ratio. The company follows a conservative leverage policy as reflected in the gearing level of the company of 0.08 times as on March 31, 2022 as and as on March 31, 2021. The total debt of the company which stood at Rs. 6.32 crore includes long term debt of Rs. 3.28 crore and Rs. 1.01 crore of working capital borrowings. The company's net worth increased to Rs.82.08 crore as on March 31, 2022 as against Rs.63.82 crore as on March 31, 2021. Total outside liabilities to total net worth (TOL/TNW) stood at 0.39 times as on FY2022 as against 0.44 times as on FY2021. Further, the interest coverage ratio improved to 33.85 times for FY2022 as against 25.09 in FY2021. The debt service coverage ratio improved to 25.36 times for FY2022 as against 18.13 times for FY2021.

The company is planning a capex of Rs. 35 crore which is expected to be funded by bank loan of Rs.21.00 crore and Internal Accruals of Rs. 14.00 crore. Out of the total debt required, the debt tie-up has been done of Rs.6.50 crore as on date. The capex planned is expected to be incurred towards setting up of building and factory at one location. With respect to the concerned capex, cost incurred till date is Rs. 4.00 crore towards the purchase of land which was sourced through internal accruals.

Acuite expects that the company's ability of completing the capex while maintaining its financial risk profile without any time and cost overruns will remain a key rating monitorable.

## Weaknesses

### Working capital intensive nature of operations

The operations of the company are of working capital intensive nature marked by high GCA days of 233 days for FY2022 as against 198 days for FY2021. The high GCA days are on account of high inventory levels of 136 days for FY2022 compared against 84 days for FY2021. The debtor days are moderate and stood at 106 days for FY2022 against 107 days for FY2021. The creditor days of the company stood at 142 days for FY2022 as against 136 days for FY2021. The fund based working capital limits are almost unutilised, however the non-fund based limits are fully utilised for the last twelve months as on October 2022.

### Highly competitive and fragmented industry

The company is exposed to intense competition from organized as well as unorganized players in the industry. PML is exposed to volatility in the prices of raw materials and foreign exchange

fluctuations can have an impact on the margins of the company. However, the company has a natural hedge which will mitigate the forex risk to some extent.

### Rating Sensitivities

- Timely completion of capex without cost overrun
- Any further elongation of working capital cycle

### Material covenants

None

### Liquidity Position Adequate

PML has an adequate liquidity marked by adequate net cash accruals as against its maturing debt obligations. The company generated cash accruals of Rs.23.10 crore for FY2022 as against repayment obligations of Rs.2.00 crore. Going forward the company is expected to generate net cash accruals in the range of Rs.32.00-Rs.36.00 crore as against negligible repayment obligations. The company maintained unencumbered cash and bank balances of Rs.0.67 crore as on 31 March 2022. The fund based working capital limits are almost unutilised, however the non-fund based limits are fully utilised for the last twelve months as on October 2022.

### Outlook: Stable

Acuite believes that PML will maintain a "stable" outlook in the medium term and will continue to benefit over the medium term due to its experience management. The outlook may be revised to "Positive" if the company demonstrates substantial and sustained growth in its revenues and/or operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than anticipated cash accruals thereby impacting its financial risk profile, particularly its liquidity.

### Other Factors affecting Rating

None

### Key Financials

| Particulars                   | Unit    | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 129.75         | 116.81         |
| PAT                           | Rs. Cr. | 19.05          | 16.14          |
| PAT Margin                    | (%)     | 14.68          | 13.82          |
| Total Debt/Tangible Net Worth | Times   | 0.08           | 0.08           |
| PBDIT/Interest                | Times   | 33.85          | 25.09          |

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

| Date        | Name of Instruments/Facilities | Term       | Amount (Rs. Cr) | Rating/Outlook         |
|-------------|--------------------------------|------------|-----------------|------------------------|
| 09 Dec 2021 | Letter of Credit               | Short Term | 8.44            | ACUITE A4 (Reaffirmed) |
|             | Letter of Credit               | Short Term | 2.96            | ACUITE A4 (Reaffirmed) |
|             | Cash Credit                    | Long Term  | 4.68            | ACUITE C (Reaffirmed)  |
|             | Proposed Bank Facility         | Short Term | 6.22            | ACUITE A4 (Reaffirmed) |
|             | Cash Credit                    | Long Term  | 3.82            | ACUITE C (Reaffirmed)  |
|             | Proposed Bank Facility         | Long Term  | 8.36            | ACUITE C (Reaffirmed)  |
| 22 Sep 2020 | Letter of Credit               | Short Term | 11.40           | ACUITE A4 (Reaffirmed) |
|             | Letter of Credit               | Short Term | 4.00            | ACUITE A4 (Reaffirmed) |
|             | Term Loan                      | Long Term  | 0.72            | ACUITE C (Withdrawn)   |
|             | Proposed Bank Facility         | Long Term  | 1.86            | ACUITE C (Reaffirmed)  |
|             | Proposed Bank Facility         | Short Term | 2.22            | ACUITE A4 (Reaffirmed) |
|             | Cash Credit                    | Long Term  | 6.75            | ACUITE C (Reaffirmed)  |
|             | Cash Credit                    | Long Term  | 8.25            | ACUITE C (Reaffirmed)  |

## Annexure - Details of instruments rated

| Lender's Name         | ISIN           | Facilities                        | Date Of Issuance | Coupon Rate    | Maturity Date  | Complexity Level | Quantum (Rs. Cr.) | Rating   |
|-----------------------|----------------|-----------------------------------|------------------|----------------|----------------|------------------|-------------------|--|
| State Bank of India   | Not Applicable | Cash Credit                       | Not Applicable   | Not Applicable | Not Applicable | Simple           | 3.82              | ACUITE BB+   Stable   Upgraded ( from ACUITE C ) |
| Central Bank of India | Not Applicable | Cash Credit                       | Not Applicable   | Not Applicable | Not Applicable | Simple           | 4.68              | ACUITE BB+   Stable   Upgraded ( from ACUITE C ) |
| Central Bank of India | Not Applicable | Letter of Credit                  | Not Applicable   | Not Applicable | Not Applicable | Simple           | 11.40             | ACUITE A4+   Upgraded ( from ACUITE A4 )         |
| State Bank of India   | Not Applicable | Letter of Credit                  | Not Applicable   | Not Applicable | Not Applicable | Simple           | 4.00              | ACUITE A4+   Upgraded ( from ACUITE A4 )         |
| Not Applicable        | Not Applicable | Proposed Long Term Bank Facility  | Not Applicable   | Not Applicable | Not Applicable | Simple           | 1.86              | ACUITE BB+   Stable   Upgraded ( from ACUITE C ) |
| Not Applicable        | Not Applicable | Proposed Short Term Bank Facility | Not Applicable   | Not Applicable | Not Applicable | Simple           | 2.22              | ACUITE A4+   Upgraded ( from ACUITE A4 )         |
| State Bank of India   | Not Applicable | Term Loan                         | Not available    | Not available  | Not available  | Simple           | 6.50              | ACUITE BB+   Stable   Upgraded ( from ACUITE C ) |

## Contacts

| Analytical  | Rating Desk  |
|---|--|
| Aditya Gupta<br>Vice President-Rating Operations<br>Tel: 022-49294041<br><a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>               | Varsha Bist<br>Senior Manager-Rating Operations<br>Tel: 022-49294011<br><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a> |
| Vaishnavi Deshpande<br>Analyst-Rating Operations<br>Tel: 022-49294065<br><a href="mailto:vaishnavi.deshpande@acuite.in">vaishnavi.deshpande@acuite.in</a> |  |

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.