Press Release

Pradip Plastic Moulders Private Limited

May 14, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.10.08 Cr.
Long Term Rating	SMERA BB/Stable

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BB' (read as SMERA double B)** on the Rs.10.08 crore bank facilities of Pradip Plastic Moulders Private Limited (PPML). The outlook is **'Stable'**.

Pradip Plastic Moulders Private Limited (PPML), a Pune based company was established as a partnership firm in 1996 and later was converted to a private limited entity in 2007 by Mr. Kishankumar Lakhani and his family. PPML is engaged in manufacturing of plastic components which finds application in interior and exterior of automobile parts such as technical blow moulded and injection blow moulded components. PPML is an original equipment manufacturer (OEM) for Tata Motors Limited.

Key Rating Drivers

Strengths:

Established track record of operations and experienced management

PPML incorporated in 1996 thereby establishing track record of operations for around two decades. Mr. Kishankumar Lakhani has around two decades of experience in the plastic components industry. SMERA believes that the company will sustain the exiting business profile on the back of the experienced management and long track record of operations.

Average financial risk profile

The financial risk profile of PPML is average marked by tangible net worth of Rs.8.33 crore as on 31 March, 2018 (Provisional) which includes unsecured loans to the tune of Rs.2.54 crore considered as quasi equity. The gearing stood at 0.39 times as on 31 March, 2018 (Provisional) and on 31 March, 2017. The total debt outstanding stood at Rs.3.26 crore as on 31 March, 2018 (Provisional) comprises Rs.1.89 crore as term loan from the bank, and Rs.1.37 crore as working capital limits from the bank. The Interest Coverage Ratio (ICR) stood at 4.41 times in FY2018 (Provisional) as against 2.85 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 2.04 times in FY2018 (Provisional) as against 1.36 times in FY2017. The net cash accruals have improved to Rs.2.05 crore in FY2018 (Provisional) as against Rs.1.11 crore in FY2017. Net cash accruals to total debt ratio stood at 0.35 times in FY2018 (Provisional) as against 0.22 times in FY2017. SMERA believes that PPML will sustain the financial risk profile on the back of improvement in net cash accruals generation over the near to medium term.

Comfortable working capital cycle

PPML has comfortable working capital cycle of 21 days in FY2018 (Provisional) as against 47 days in FY2017. The improvement in working capital cycle is on account of reduction in inventory holding period to 22 days in FY2018 (Provisional) as against 47 days in FY2017. The receivable days stood at 53 in FY2018 (Provisional) as against 49 in FY2017. The Gross Current Assets have improved to 98 days in FY2018 (Provisional) as against 133 days in FY2017. Further, the average bank limit utilisation stood at ~46.74 percent for the last six months ended March, 2018. SMERA believes that the company will maintain comfortable working capital cycle over the medium term on account of comfortable liquidity.

Weaknesses:

Moderate scale of operations

PPML has moderate scale of operations marked by operating income of Rs.27.31 crore in FY2018 (Provisional) as against Rs.18.00 crore in FY2017, in spite of being into this line of business for more than two decades. The EBITDA margins stood at 11.91 percent in FY2018 (Provisional) as against 10.09 percent in FY2017 and 9.80 percent in FY2016 and 11.04 percent in FY2015, respectively. The EBITDA margins have improved in FY2018 as compared to FY2017 due to reduction in the raw material cost. The PAT margins stood at 4.90 percent in FY2018 (Provisional) as against 2.72 percent in FY2017. SMERA believes that PPML's ability to increase its scale of operations while maintaining profitability margins shall remain key rating sensitivities. PPML may face challenges over the medium term in growing the scale of operations on account of its limited market share and increasing competitive pressure in the industry.

Customer concentration risk

Around ~56 percent of the revenue is generated from Tata Motors Limited in FY2017-18 (Provisional) as against ~65 percent in FY2016-17 thereby generating customer concentration risk. Any adverse changes in the business profile of Tata Motors Limited will directly impact the revenue streams of PPML. However, this risk is mitigated as PPML is diversifying its revenue streams with different customers such as Fiat India, Banco Products India Private Limited and Groupo Antolin to name a few. SMERA believes that the ability of PPML in order to diversify its customer profile will be key rating sensitivity.

Exposure to movement in crude oil prices

SMERA believes that PPML's operating cash flows will remain susceptible to fluctuations in crude oil prices. Adverse movement in crude oil prices coupled with PPML's limited bargaining power can adversely affect its debt servicing ability. Consequently, the ability to pass on the increase in raw material prices to its customers in the light of strengthening of crude oil prices shall remain a rating sensitivity factor.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of PPML to arrive at the rating.

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

Outlook: Stable

SMERA believes that PPML will maintain a 'Stable' outlook over the medium term on account of its experienced management, healthy profitability indicators and prudent capital structure. The outlook may be revised to 'Positive' in case of sustained increase in scale of operations while maintaining its profitability indicators. Conversely, the outlook may be revised to 'Negative' in case of substantial increase in gearing and/or higher than expected deterioration in profitability margins.

About the Rated Entity – Consolidated Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	27.31	18.00	16.25
EBITDA	Rs. Cr.	3.25	1.81	1.61
PAT	Rs. Cr.	1.34	0.49	0.28
EBITDA Margin	(%)	11.91	10.09	9.91
PAT Margin	(%)	4.90	2.72	1.74
ROCE	(%)	23.68	13.19	13.25
Total Debt/Tangible Net Worth	Times	0.39	0.39	0.41
PBDIT/Interest	Times	4.41	2.85	2.24
Total Debt/PBDIT	Times	0.99	1.42	1.50
Gross Current Assets (Days)	Days	98	133	125

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB/Stable (Assigned)
Term loan I	Not Applicable	Not Applicable	Not Applicable	0.57	SMERA BB/Stable (Assigned)
Term loan II	Not Applicable	Not Applicable	Not Applicable	0.61	SMERA BB/Stable (Assigned)
Proposed term loan	Not Applicable	Not Applicable	Not Applicable	5.90	SMERA BB/Stable (Assigned)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in Namita Palve Analyst - Rating Operations Tel: 022-67141129 namita.palve@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

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