Acuité
RATINGS & RESEARCH

Press Release

PRAGATI GLASS PRIVATE LIMITED

February 05, 2020

Rating Upgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 33.34 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B-/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE BB-' (read as ACUITE double B minus)** from **'ACUITE B-' (read as ACUITE B minus)** to the Rs.26.50 crore bank facilities of PRAGATI GLASS PRIVATE LIMITED (PGPL). The outlook is **'Stable'**.

Also, Acuité has reaffirmed the short term rating of **'ACUITE A4' (read as ACUITE A four)** to the Rs.7.34 crore bank facilities of PGPL.

Rating upgrade is reflected by improvement in scale of operations and comfortable financial risk profile. Revenues have increased at compounded annual growth rate (CAGR) of around ~26.51 percent through the last three years ended 31 March, 2019. The company reported revenue growth of ~25.87 percent with operating income of Rs.196.65 crore in FY2019 as against operating income of Rs.156.24 crore in FY2018. Further, revenues registered for the period April to December, 2019 is around Rs.152.99 crore (Provisional). Financial risk profile is comfortable marked by healthy net worth, low gearing and high debt protection measures. Further, the rating is supported by experienced management, reputed clientele and long track record of the company.

Incorporated in 1981, PGPL is a Gujarat based company engaged in manufacturing of glass bottles. The day to day operations are managed by its directors, Mr. Dinesh Kumar Gupta, Mr. Rajesh Shah and Mr. Ashish Gupta. The company has a manufacturing unit in bhiwandi with a capacity of 47500 metric tonne per annum. It has reputed clientele which includes Zandu Pharma, Emami, Godrej, Raymond (J.K. Helen Curtis), Marico, Lykis Ltd, Himalaya Drugs Ltd, Dabur India Ltd., to name a few.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of PGPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  PGPL was incorporated in 1981 by its directors, Mr. Dinesh Kumar Gupta, Mr. Rajesh Shah and Mr. Ashish Gupta who has experience of over three decades in the glass and glassware industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. PGPL has wide customer base with top ten customers accounting for ~14.80 percent of sales. Further, the experience of the top management and second level management, company has been able to expand its business pan India.

  Acuité believes that PGPL will continue to benefit from its experienced management and established relationships with customers and suppliers.

- **Steady growth in scale of operations**

  The company has reported steady revenue growth with compounded annual growth rate (CAGR) of around ~26.51 percent through the last three years ended 31 March, 2019. The company reported revenue growth of ~25.87 percent with operating income of Rs.196.65 crore in FY2019 as against operating income of Rs.156.24 crore in FY2018 and Rs.122.86 crore in FY2017. Further it has reported revenue of Rs.152.99 crore for the period April to December, 2019.

  Acuité believes that the scale of operations will improve further based on moderate order book along with consistent orders from reputed clientele.

• **Moderate financial risk profile**
The financial risk profile is moderate marked by healthy net worth, high debt protection measures and low gearing. The net worth of the company is healthy at Rs.84.59 crore as on 31 March 2019 as against Rs.78.34 crore as on 31 March 2018. The gearing (debt to equity) of the company stood at 0.42 times as on March 31, 2019 as against 0.38 times as on March 31 2018. Total debt of Rs.35.78 crore consists of unsecured loans of Rs.17.74 crore and working capital facility of Rs.17.45 crore as on 31 March, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.27 times as on 31 March, 2019 as against 1.23 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 4.73 times in FY2019 as against 4.25 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.34 times as on 31 March 2019 as against 0.35 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) improved to 3.45 times in FY2019 from 2.00 times in FY2018.
Acuité believes that it will remain comfortable at the back of steady scale of operations and healthy net cash accruals and.

Weaknesses

• **Decline in profitability**
The operating margins of the company declined to 8.56 percent in FY2019 from 14.25 percent in FY2018. This is majorly because of the increase in overheads like employee expenses and raw material's price fluctuation.
Acuité believes that company's ability to efficiently manage its profitability will be a key rating sensitivity.

• **Intensive working capital operations**
The working capital of PGPL is intensive in nature marked by high Gross Current Asset (GCA) days of 213 for FY2019 as against 227 in the previous year. This is on account of high debtor days which stood at 137 for FY2019 as against 129 for FY2018, further inventory days stood at 57 in FY2019 as against 77. However, the reliance on working capital facility is high, its utilization is around ~90 percent on an average for last 6 months ending December, 2019.
Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

• **Highly fragmented and competitive industry**
The glass and glassware industry is highly fragmented with several organized and unorganized players, thereby impacting the company's profitability.
Acuité believes that high fragmentation and competition is likely to impact the profitability.

Rating Sensitivity

• Deterioration in financial risk profile of the company.
• Deterioration in scale of operations and profitability margins.

Material Covenants

None.

Liquidity Position: Adequate

PGPL has adequate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.12.26 crore in FY2019 as against Rs.10.42 crore in FY2018 and Rs.9.43 crore in FY2017, while its maturing debt obligation was around Rs.0.59 crore for FY2019, Rs.0.96 crore for FY2018 and Rs.3.33 crore for FY2017. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 213 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilized at ~90 percent during the last 6 months' period ended December, 2019. The company maintains unencumbered cash and bank balances of Rs.3.22 crore as on March 31, 2019. The current ratio of the company stands at 1.37 times as on March 31, 2019.
Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité believes that PGPL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in PGPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	196.65	156.24
PAT	Rs. Cr.	6.25	4.56
PAT Margin	(%)	3.18	2.92
Total Debt/Tangible Net Worth	Times	0.42	0.38
PBDIT/Interest	Times	4.73	4.25

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

None.

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.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
21-Nov-2018	Cash Credit	Long Term	17.50	ACUITE B-/Stable (Upgraded from ACUITE D)
	Letter of Credit	Long Term	3.50	ACUITE A4 (Upgraded from ACUITE D)
	Bank Guarantee	Long Term	0.50	ACUITE A4 (Upgraded from ACUITE D)
	Proposed Bank Facility	Long Term	2.84	ACUITE A4 (Upgraded from ACUITE D)
27-Jun-2018	Cash Credit	Long Term	17.50	ACUITE D (Assigned)
	Letter of Credit	Long Term	3.50	ACUITE D (Assigned)
	Bank Guarantee	Long Term	0.50	ACUITE D (Assigned)
	Proposed Bank Facility	Long Term	2.84	ACUITE D (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	17.50*	ACUITE BB- /Stable (Upgraded from ACUITE B-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB- /Stable (Upgraded from ACUITE B-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- /Stable (Upgraded from ACUITE B-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00**	ACUITE A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.34	ACUITE A4 (Reaffirmed)

*sublimit to CC of Rs.5.00 crore for packing credit cum FBP/F BD up to 90 days, Rs.10.00 crore for PCFC and Rs.1.00 crore for parking at kurla branch, Mumbai.
**sublimit to LC of Rs.0.50 crore for bank guarantee.
**sublimit to LC is Irrevocable revolving LC (DP upto 120 days) is Rs.2.80 crore.

Contacts

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About Acuité Ratings & Research:

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