

Press Release

Passion Industries Private Limited

July 23, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE BB minus**) on the Rs. 15.00 crore bank facilities of Passion Industries Private Limited. The outlook is '**Stable**'.

Passion Industries Private Limited (PIPL), a Rohtak-based company incorporated in 2013 is promoted by Mr. Navdeep Singh, Mrs. Manju Lata and Mrs. Tarawati. The company took over the running business of proprietorship concern 'Passion Steels' established by Mr. Navdeep Singh in 2010. PIPL is engaged in drawing of alloy steel wires, rods and coils which finds application in the automobile parts manufacturing industry. The manufacturing unit of the company is located in Rohtak (Haryana) with installed capacity of 2,500 metric tonnes per month. The company procures the raw material including bright bar, MS wire coil, among others from local manufactures and others located in cities including Kolkata. PIPL mainly sells to auto components manufacturing companies located in Rohtak.

Key Rating Drivers

Strengths

- **Experienced promoter**

PIPL benefits from the extensive experience of its promoter, Mr. Navdeep Singh, who possess around a decade of experience in the iron and steel industry. The company has been able to maintain long standing relation with its customers and suppliers. The company has reported operating income of Rs.85.13 crore for FY2018 (Provisional) as against Rs.63.89 crore for FY2017 and Rs.36.25 crore in FY2016. The significant growth can be attributed to strong demand for its products and competitive pricing offered by the company. Going forward, Acuité expects the company to maintain stable business risk profile on account of extensive experience of the promoters and favorable demand for automobile components.

- **Funding support from promoters**

The company also benefits from the funding support in the form of interest-free unsecured loan of Rs.7.29 crore as on 31 March, 2017 from the promoters which is subordinated to bank debt. The funds have been used for the purpose of funding capital expenditure plans and incremental working capital requirement. Going forward, the timely infusion and funding support from the promoters will continue to remain key rating sensitivity factor.

Weaknesses

- **Working capital intensive nature of operations**

The operating cycle of the company is elongated with Gross Current Assets (GCA) of around 128 days for FY2017 as against 189 days in the previous year. The high GCA days can be attributed to stretched receivable days as same stood at 98 days for FY2017 as against 170 days in the previous year. Further, the liquidity position is also stretched with average cash credit limit utilisation of around 98 percent during the last six months ended as on 31 March, 2018.

- **Declining profitability resulting in inadequate coverage indicators**

The operating margins have shown declining trend during the last two years. The operating margin declined to 4.02 percent in FY2017 and 6.72 percent in FY2016 and further the company is expected to report 3.26 percent operating margin for FY2018. The decline in the margins can be attributed to the highly competitive and fragmented steel wire industry which is characterised by the presence of

large number of organised and unorganised players. This has also led to inadequate coverage indicators as the net cash accruals to total debt (NCA/TD) stood at 0.08 times, interest coverage ratio at 1.61 times and debt service coverage ratio at 1.59 times for FY2017.

• Susceptibility of profitability to volatility in raw material prices

The raw material cost constitutes more than 90 percent of the total sales; hence the profitability of the company is exposed to volatility in the input (bright bar, MS Wire Coil) price in the absence of adequate hedging mechanism. Further, the procurement is not order backed leading to inventory holding risk.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PIPL for arriving at the rating.

Outlook: Stable

Acuité believes that the PIPL will maintain a 'Stable' outlook over the medium term on account of the extensive experience of the promoters in the steel wire industry. The outlook may be revised to 'Positive' in case of significant growth in revenues and profitability while effectively managing its operating cycle and liquidity position. Conversely, the outlook may be revised to 'Negative' if there is a steep decline in the company's revenues and profitability or deterioration in financial risk profile owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	63.89	36.25	43.01
EBITDA	Rs. Cr.	2.57	2.44	2.10
PAT	Rs. Cr.	0.08	-0.03	0.07
EBITDA Margin	(%)	4.02	6.72	4.87
PAT Margin	(%)	0.13	-0.08	0.15
ROCE	(%)	8.51	8.83	16.67
Total Debt/Tangible Net Worth	Times	1.13	1.39	1.69
PBDIT/Interest	Times	1.61	1.50	1.68
Total Debt/PBDIT	Times	4.32	4.74	4.84
Gross Current Assets (Days)	Days	128	189	166

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

***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	15.00	ACUITE BB- / Stable

Cash Credit includes sublimit of Bill discounting under LC to the extent of Rs. 2.00 crore and Letter of Credit to the extent of Rs. 2.00 crore.

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Shashikala Hegde Senior Analyst - Rating Operations Tel: 022-67141321 shashikala.hegde@acuiteratings.in	

About Acuité Ratings & Research:

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