

Press Release

Passion Industries Private Limited

December 06, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr. (Enhanced from Rs. 15.00 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 16.00 crore bank facilities of Passion Industries Private Limited (PIPL). The outlook is '**Stable**'.

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 the 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.

Analytical Approach

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

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. His experience in the industry has helped company in maintaining long standing relations with customers by getting recurring orders and suppliers.

- **Improving revenue and continuous funding support from promoters**

The operating income of the company improved to Rs.74.11 crore in FY2018 as compared to Rs.63.89 crore in FY2017 and Rs.36.25 crore in FY2016. The company is growing at Compounded Annual Growth Rate (CAGR) of 19.88 percent since 2015. The company also benefits from the funding support in the form of interest-free unsecured loan of Rs.7.26 crore as on 31 March, 2018 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. Further, the company has booked revenue of Rs.55.98 crore till November 2018.

Weaknesses

- **Working capital intensive nature of operations**

The operating cycle of the company is elongated with Gross Current Assets (GCA) of around 135 days in FY2018 as compared to 128 days in FY2017. The high GCA days are marked by high receivables of 97 days for FY2018 and 98 days for FY2017. Further, the liquidity position is also stretched with average cash credit limit utilisation of around 99.39 percent during the last six months ended as on 31 October, 2018.

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

The operating margins have shown declining trend during the last three years. The operating margin declined to 3.71 percent in FY2018 as compared to 4.02 percent in FY2017 and 6.72 percent in FY2016. The decline in 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 0.06 times, interest coverage ratio stood at 1.58 times and debt service coverage ratio at 1.12 times for FY2018.

• **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.

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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	74.11	63.89	36.25
EBITDA	Rs. Cr.	2.75	2.57	2.44
PAT	Rs. Cr.	0.14	0.08	-0.03
EBITDA Margin	(%)	3.71	4.02	6.72
PAT Margin	(%)	0.19	0.13	-0.08
ROCE	(%)	8.23	8.51	8.83
Total Debt/Tangible Net Worth	Times	1.58	1.13	1.39
PBDIT/Interest	Times	1.58	1.61	1.50
Total Debt/PBDIT	Times	5.72	4.32	4.74
Gross Current Assets (Days)	Days	135	128	189

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

Not Applicable

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. Crore)	Ratings/Outlook
23-Jul-2018	Cash Credit	Long Term	15.00	ACUITE BB- / Stable (Assigned)

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.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB- / Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable (Assigned)

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

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About Acuité Ratings & Research:

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