

Press Release

Passion Industries Private Limited

July 30, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 19.50 Cr. (Enhanced from Rs.18.50 crore)
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has Reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE BB**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 19.50 crore bank facilities of PASSION INDUSTRIES PRIVATE LIMITED. The outlook is '**Stable**'.

Rohtak-based, PIPL was incorporated in 2013 as a private limited company and is promoted by Mr. Navdeep Singh, Mrs. Manju Lata and Mrs. Tara Wati. The company took over the running business of proprietorship firm 'M/s Passion Steels' established by Mr. Navdeep Singh in 2006. 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 2500 metric tonnes per month.

Analytical Approach

ACUITE has considered the standalone business and financial risk profiles of PIPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

PIPL benefits from the extensive experience of its promoter, Mr. Navdeep Singh, who possess 13 years 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 supplies. Acuité believes promoter's extensive experience in the iron and steel industry will help the company maintain good relations with its customers and suppliers.

• Improvement in revenue and margins

The operating income of the company improved to Rs.89.05 crore in FY2019 as compared to Rs.74.20 crore in FY2018 and Rs.63.89 crore in FY2017. The company is growing at compounded annual growth rate (CAGR) of 35 percent through the last three years ended 31 March, 2019. The EBITDA margins have improved to 4.17 per cent for FY2019 as against 3.70 per cent in FY2018. The PAT margins have improved to 0.71 per cent for FY2019 as against 0.18 per cent in FY2018.

Weaknesses

• Working capital intensive nature of operations

The operating cycle of the company is high with Gross Current Assets (GCA) of around 133 days in FY2019 and 136 days in FY2018. The high GCA days are marked by high receivables of 101 days for FY2019 and 97 days for FY2018. Further, the liquidity position is also stretched with average cash credit limit utilization of around 99.11 percent during the last six months ended as on 31 March, 2019.

- **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.

Liquidity position

The firm has moderate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.42 crore during FY2019, while there was no significant debt maturity obligation. The cash accruals of the firm are estimated to increase from Rs. 2.33 crore in FY2020 to Rs.4.63 crore in FY2022 against the debt maturity obligation of Rs. 0.15 crore each year for the same period. The firm maintains cash and bank balances of Rs.0.83 crore as on March 31, 2019. The current ratio of the firm stands healthy at 1.33 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of comfortable cash accrual to its maturing debt obligation.

Outlook: Stable

ACUITE believes that the PIPL will continue to benefit 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 the company registers higher-than-expected revenues and profitability while effectively managing its operating cycle. Conversely, the outlook may be revised to negative if there is steep decline in company's revenues and profitability or deterioration in company's financial risk profile owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	89.05	74.20	63.89
EBITDA	Rs. Cr.	3.71	2.74	1.64
PAT	Rs. Cr.	0.63	0.14	0.08
EBITDA Margin	(%)	4.17	3.70	2.57
PAT Margin	(%)	0.71	0.18	0.13
ROCE	(%)	10.87	8.21	7.58
Total Debt/Tangible Net Worth	Times	1.98	8.27	6.99
PBDIT/Interest	Times	1.78	1.58	1.69
Total Debt/PBDIT	Times	5.12	8.36	7.68
Gross Current Assets (Days)	Days	133	136	128

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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. Cr.)	Ratings/Outlook
23-July-2019	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Upgraded)
	Term loan	Long Term	1.00	ACUITE BB / Stable (Upgraded)
	Letter of credit	Short Term	2.50	ACUITE A4+ (Assigned)
06-Dec-2018	Cash Credit	Long Term	15.00	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	1.00	ACUITE BB- / Stable (Assigned)
23-Jul-2018	Cash Credit	Long Term	15.00	ACUITE BB- / Stable (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	15.00	ACUITE BB / Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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