Acuite RATINGS & RESEARCH

Press Release

Parason Machinery India Private Limited

December 11, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 35.20 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

* *Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** and short-term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 35.20 crore bank facilities of PARASON MACHINERY INDIA PRIVATE LIMITED (PMIPL). The outlook is **'Stable'**.

The rating assigned factors in long track record of operations of Desarda Group in the capital goods industry, established position in the market and healthy financial risk profile. However, the ratings are constrained by working capital intensive nature of operations. The ability of the company to scale up the operations while maintaining profitability and effectively managing its working capital operations will remain key rating sensitivity.

PMIPL, incorporated in 1991, is currently managed by Mr. Shekhar Desarda. Initially the business was carried out as a proprietorship concern since 1977 by Mr. C. P. Desarda. The company is engaged in manufacturing and installation of various machineries used in the pulp and paper industry. The company derives ~50 percent of the revenue from capital goods and remaining from sale of consumables & spares. Presently, the company has nine manufacturing units located in Aurangabad and branch offices in Secunderabad, Vapi, Delhi, Nagpur, Kolkata, Coimbatore, Morbi and Indonesia.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established position in the market**
  The company was initially established in 1977 by Dr. Champalal Desarda, Doctorate in Metallurgy with specialisation in high chrome steel alloys. Subsequently, his son Mr. Shekhar Desarda B.E. (Mechanical) joined the business in the year 1991. The promoters are supported by team of well-qualified and experienced professionals. The promoter family have operational track record of more than four decades in the manufacturing of capital equipment and spares for the paper & pulp industry. The company has also set-up an in-house research & development facility registered with DSIR. Their established presence in the industry has helped the company to establish and maintain long-standing relations with customers and suppliers. The company also caters to the overseas market and has diversified clientele wherein the top 10 customers contribute only 15 - 20 percent to the total revenue of the company. Till date, the company has exported to more than 60 countries around the globe. The company has reported operating income of Rs. 150.96 crore for FY2019 as against Rs. 82.59 crore in FY2016 indicating CAGR of about 22 per cent. The unexecuted order book of only capital goods stood at Rs. 57.00 crore as on date, which is expected to be executed over the next twelve months. Recently, the company has acquired controlling stake in a Brazilian company 'Calpher Máquinas E Equipamentos Ltda' through its subsidiary. The acquisition of Calpher will enlarge Parason's footprint in Brazil and Latin America thereby allowing access to enlarged portfolio and greater opportunities to improve competitiveness in the market.

  Acuité believes that the company will continue to benefit from its established position in the market, technical expertise, strong brand recognition and extensive experience of the management in the capital goods industry.

- **Healthy financial risk profile**
  The financial risk profile of the company is healthy marked by high tangible networth, low gearing and comfortable debt protection metrics. The networth of the company stood at Rs. 92.87 crores as on March 31, 2019 against Rs. 55.87 crores as on March 31, 2018. The increase in networth is mainly due to merger of group companies leading to accretion in reserves. Total debt of Rs.14.63 crores includes Rs. 7.26 crores term loan and Rs. 7.37 crores of short-term borrowings. The company has always followed a conservative leverage policy as evident by average gearing of 0.12 over the last three years. Gearing stood at 0.16 times as on March 31, 2019 as against 0.08 times as on March 31, 2018. The company revenues stood at Rs. 150.96 crore in FY2018-19 against Rs. 133.26 crore in FY2017-18. The operating margins have been improving continuously from 11.40 per cent in FY2017 to 12.20 per cent in FY2019. The modest revenue levels coupled with improving operating margins have led to comfortable debt protection measures. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 17.86 and 13.62 times respectively for FY2019.

  Acuité believes that the financial risk of the company will remain healthy over the near to medium term due to improving operating performance, low debt vis-à-vis net worth and healthy debt protection matrices.

Weaknesses

- **Working capital intensive nature of operations**
  The working capital operations of the company are intensive marked by GCA days of 205 in FY2019 against 165 in FY2018 and 247 in FY2017. The GCA days are high primarily on account of high inventory. The company procures steel as raw material in bulk quantity to avail better pricing. An order takes around 2 to 12 months to be complete based on its nature and complexity. Sometimes, there are delayed deliveries due to project delay, delays in approvals and license for operations, bank sanctions and funding from customer's end. All these factors lead to lengthening of inventory days and subsequently elongation of working capital cycle. The debtor days stood at 53 in FY2019 against 38 in FY2018.

  Acuite believes that ability of the company to manage its working capital operations effectively will be the key rating sensitivity.

- **Margins are susceptible to volatility in raw material prices and forex rates**
  The main raw material used by the company is steel; the prices of which are volatile in nature. Hence, the profitability of the company is highly susceptible to volatility in the raw material prices in the absence of price escalation clause in the contracts. The company exports around 30 - 35 percent and imports around 2 - 3 percent of its total purchases. Hence, the profitability of the company is susceptible to volatility in foreign exchange rate in the absence of adequate hedging mechanism. However, the company has been able to improve margins year on year despite volatility in raw material prices and forex rates.

Rating Sensitivities

- Consistent increase in the scale of operations and profitability margins leading to further improvement in overall financial risk profile.
- Elongation of working capital cycle leading to increase in GCA days and dependence on external borrowings.

Material Covenants

None

Liquidity Position: Strong

The company's liquidity is strong marked by net cash accruals in the range of Rs. 8.00 - Rs. 14.00 crore against minimal repayment obligations over the past three years through FY2017-FY2019. The working capital limits remained utilized at around 48 per cent for the last six months ended September 2019. The working capital operations are intensive marked by GCA days of 205 in FY2019. The current ratio stood moderate at 1.76 times as on March 31, 2019. Further, the company also maintained liquid investments in the form of FDR and mutual funds of Rs. 11.62 crore as on March 31, 2019. The unencumbered cash and bank balances stood at Rs. 4.12 crore as on March 31, 2019. Acuité believes that liquidity of the company will remain strong owing to improving net cash accruals, sufficient liquid investments, healthy cash & bank balances and minimal repayment obligations.

Outlook: Stable
Acuité believes that PMIPL will continue to maintain a stable outlook over the near to medium term owing to its established position in the market and experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and profitability while effectively managing its working capital operations. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	150.96	133.26	90.41
EBITDA	Rs. Cr.	18.42	15.54	10.31
PAT	Rs. Cr.	10.40	8.96	7.01
EBITDA Margin	(%)	12.20	11.66	11.40
PAT Margin	(%)	6.89	6.73	7.75
ROCE	(%)	17.87	21.78	17.54
Total Debt/Tangible Net Worth	Times	0.16	0.08	0.13
PBDIT/Interest	Times	17.86	30.76	21.76
Total Debt/PBDIT	Times	0.74	0.30	0.58
Gross Current Assets (Days)	Days	205	165	247

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

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 - http://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)
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	17.50^	ACUITE BBB+ / Stable (Assigned)
Term Loan - I	Not Applicable	Not Applicable	Not Applicable	10.00#	ACUITE BBB+ / Stable (Assigned)
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	5.00*	ACUITE BBB+ / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2 (Assigned)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE A2 (Assigned)

^FCDL of Rs.15.00 crore is sublimit of CC.
#FCTL of Rs.9.50 crore is sublimit of term loan - I.
**FCTL of Rs.5.00 crore is sublimit of term loan - II.*

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About Acuité Ratings & Research:
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