Press Release

Parason Machinery India Private Limited

February 26, 2021

Rating Upgraded

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

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE A-' (read as ACUITE A minus)** from **'ACUITE BBB+' (read as ACUITE triple B plus)** and the short term rating to **'ACUITE A2+' (read as ACUITE A two plus)** from **'ACUITE A2' (read as ACUITE A two)** on the Rs.35.20 Cr. bank facilities of Parason Machinery India Private Limited (PMIPL). The outlook is **'Stable'.**

Rationale for Upward Revision in Ratings

The rating upgrade is on account of consistent strong performance marked by strong business risk profile supported by reputed and diversified clientele, healthy financial risk profile and its moderate working capital management. Acuité also factors in its strong liquidity position in FY2020 and its stable performance expected in FY2021 subsidising the impact of Covid-19. Nonetheless, Acuité also factors in the company's operations being exposed to volatility in the forex rates and raw material prices.

About the Company

Aurangabad based PMIPL was incorporated in 1991 and is currently managed by Mr. Shekhar Desarda. The entity was initially established as a proprietorship concern in 1977 by Mr. C. P. Desarda. The company is engaged in manufacturing and installation of various machineries used in the pulp and paper industry. Currently, the company has nine manufacturing units located in Aurangabad and branch offices in India, Indonesia, and South America.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Strong business risk profile supported by experienced management and established position in the market**

The company was initially established as a proprietorship concern in 1977 by Dr. Champalal Desarda. Currently, the entity is managed by Mr. Shekhar Desarda, who has joined the business in the year 1991, changing, the constitution of the entity to a private limited entity. The promoters are supported by team of well-qualified and experienced professionals with the promoter family having an operational track record of more than four decades in the manufacturing of capital equipments, consumables 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 maintain long-standing relationship with customers and suppliers. It also caters to the foreign market with a diversified geographic clientele of more than 60 countries.

PMIPL clientele includes reputed customers such as ITC limited, JOEFL Paper Mills, West Coast Paper Mills, Astron Paper and Board Mill, BILT, ABB India, Bank Note Paper Mill India Private Limited, Ordinance factory board, JK Paper Limited, Tamil Nadu Newsprint and Papers Limited, Emami, Century Paper & Board Mills Limited etc.

PMIPL has been able to overcome from the impact of covid-19 since the demand from ecommerce segment for boxes has helped the company to secure orders for paper machineries. The company did witness stable revenues in FY2020 reflected in an operating income of Rs.148.66 Cr. in FY2020 as against Rs.150.96 Cr. in FY2019. The profitability indicators have also witnessed stability with operating margin (EBIDTA) of 12.93 percent in FY2020 as against 12.20 percent in FY2019. The PAT margins have however improved to 8.78 percent in FY2020 as against 6.89 percent in FY2019 supported by realisations of deferred tax assets.

With stable revenue and increase in asset base on account of merger with 3 group companies, PMIPL witnessed deterioration in ROCE to 12.08 percent in FY2020 as against 17.87 percent in FY2019. PMIPL has an order book of Rs.130.00 Cr. as on January 31, 2021 to be executed within next 6 months.

PMIPL had acquired controlling stake in a Brazilian company 'Calpher Máquinas E Equipamentos Ltda' through its subsidiary in FY2018 which has enlarged its footprint in Brazil and Latin America market thereby allowing access to enlarged portfolio of regional customers and greater opportunities to further exploit competitiveness in these markets. The company already has more than 50 percent share in these markets.

Acuité believes that PMIPL will continue to benefit from its strong business risk profile supported by established position in the market, technical expertise via continuous investments in R&D, strong brand recognition and extensive experience of the management in the capital goods industry.

- **Healthy financial risk profile**

PMIPL's financial risk profile stands healthy marked by healthy tangible net worth, low gearing and healthy coverage indicators.

The tangible net worth of the company has strengthened to Rs.105.91 Cr. as on March 31, 2020 as against Rs.92.87 Cr. on March 31, 2019 on account of accretion of profits to reserves. PMIPL follows a conservative financial policy reflected with its peak gearing (Debt to Equity) of 0.17 times as on March 31, 2020 as against 0.16 times as on March 31, 2019. The debt profile majorly comprises of working capital facilities of Rs.9.93 Cr. and long term debt of Rs.8.35 Cr as on March 31, 2020.

The TOL/TNW (Total Outside Liabilities to Total Net Worth) ratio stands at 0.53 times as on March 31, 2020 as against 0.71 times as on March 31, 2019. The Debt-EBITDA remains comfortable at 0.94 times as on March 31, 2020 increasing from 0.74 times as on March 31, 2019.

The coverage indicators have remained healthy marked by ICR (Interest Coverage Ratio) of 19.87 times and DSCR (Debt-Service Coverage Ratio) of 6.28 times in FY2020. The NCA/TD (Net Cash Accrual to Total Debt) stood healthy at 0.97 times for FY2020 as against 0.95 times in FY2019.

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

Weaknesses

- **Working capital intensive nature of operations**

PMIPL's operations are working capital intensive due the nature of business in which the company operates. This is reflected in its GCA (Gross Current Asset) of 170 days in FY2020 as against 205 days in FY2019. Improvement in GCA is supported by realisation of other current assets and marginal improvements witnessed in inventory holding period and debtors collection period. The inventory holding period stood at 99 days in FY2020 as against 105 days in FY2019 while the debtors collection period stood at 53 days in FY2020 and xx days in FY2019.

The company has moderate inventory holding period which is mainly on account of bulk purchases of steel to avail better pricing as well as, at the same time end to end execution of order also takes around atleast 6 to 12 months depending on the nature and the complexity of the project. The project execution in the capital goods industry is often affected by delays in approvals and license for operations, funding processes and other operational delays. All these factors can further lead to lengthening of Inventory holding period and subsequently elongation of working capital cycle.

Nonetheless, improvement in Inventory holding period and stability in the debtor's collections period is further supported by the company's demonstrated ability to promptly service its creditors, this is reflected in improvement in creditors payback period to 69 days in FY2020 as against 119 days in FY2019.

PMIPL's fund based utilisation of the working capital facilities for the last trailing 6 months period ended January, 2021 stands at 70 percent, while the non-fund based utilisation stands at 70 percent as on January 31, 2021.

Acuité believes that the company's ability to manage its working capital requirements effectively will be the key rating sensitivity factor.

- **Margins susceptible to raw material and foreign exchange fluctuation risk**

Steel being the major raw material utilised by the company, forms a major component of the overall cost structure of the company. With steel prices being volatile in nature the company faces cost escalation risk in the absence of adequate hedging mechanism and the absence of price escalation clause in its contracts.

Further, exports contribute ~50 percent of the revenue for PMIPL, this poses foreign exchange fluctuation risk to PMIPL in the absence of adequate hedging mechanism making the operating income and profitability margins volatile to the whims of market forces.

Liquidity position: Strong

PMIPL has strong liquidity position marked by healthy NCA (Net Cash Accruals) vis-à-vis its maturing debt obligations. The company generated cash accruals of Rs.17.72 Cr. during the FY2020 while its maturing debt obligations stood at ~Rs.2.00 Cr. over the same period. The cash accruals of the company are estimated to remain around Rs.20-35 Cr. during 2021-23 period, while its repayment obligations are estimated to be around Rs.4.00 - Rs.5.00 Cr in near term. Further, the company has also maintained liquid investments in the form of FDR and mutual funds of Rs.28.82 crore as on March 31, 2020. The unencumbered cash and bank balances stood at Rs.5.66 crore during the same period. The company's reliance on working capital limits remain moderate with average utilisation of working capital limits remain at ~70 percent for the last trailing 6 month period ended January 2021. The current ratio of the company stood at 1.69 times as on March 31, 2020 and as on March 31, 2019. The working capital management remain intensive marked by GCA of 170 days in FY2020.

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. Howbeit, the working capital management in the near to medium term, will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook: Stable

Acuité believes that PMIPL will maintain a 'Stable' outlook in the near to medium term on account of its strong business risk profile supported by its established position in the market and diversified revenue profile. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in its scale of operations, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the company registers significant decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher-than-expected increase in debt-funded capex/requirements or working capital requirements resulting in deterioration in the overall capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	148.66	150.96
PAT	Rs. Cr.	13.05	10.40
PAT Margin	(%)	8.78	6.89
Total Debt/Tangible Net Worth	Times	0.17	0.16
PBDIT/Interest	Times	19.87	17.86

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Dec-2019	Cash Credit	Long Term	17.50	ACUITE BBB+ / Stable (Assigned)
	Term Loan – I	Long Term	10.00	ACUITE BBB+ / Stable (Assigned)
	Term Loan – II	Long Term	5.00	ACUITE BBB+ / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A2 (Assigned)
	Proposed Bank Facility	Short Term	0.70	ACUITE A2 (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	1.56%	Not Applicable	17.50^	ACUITE A- / Stable (Upgraded)
Term Loan – I	February, 2018	2.30%	March, 2023	6.75# (Revised from 10.00)	ACUITE A- / Stable (Upgraded)
Term Loan – II	June, 2019	2.30%	June, 2024	5.00*	ACUITE A- / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.97 (Revised from 2.00)	ACUITE A2+ (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.98	ACUITE A2+ (Upgraded)

^FCDL of Rs.15.00 crore is sublimit of CC.
#FCTL of Rs.6.75 crore is sublimit of Term Loan – I.
**FCTL of Rs.2.21 crore is sublimit of Term Loan – II.*

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL – II norms in the year 2012. Since then, it has assigned more than 8,575 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.