Press Release

Parason Machinery India Private Limited

March 22, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.97	-	ACUITE A2+ | Reaffirmed
Bank Loan Ratings	44.28	ACUITE A- | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	46.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** and the short-term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.46.25 Cr. bank facilities of Parason Machinery India Private Limited (PMIPL). The outlook is **'Stable'**.

The rating reaffirmed takes into account PMIPL's experienced management and established track record of operations, improving operating performance and healthy financial risk profile. The rating is constrained on account of working capital intensive nature of operations and susceptibility of PMIPL's profitability to raw material prices and foreign exchange fluctuation risk. PMIPL's ability to improve its scale of operations while maintaining its profitability will remain a key rating sensitivity. Any further elongation in its working capital cycle will impart a negative bias to the rating.

About the Company

Parason Machinery India Private Limited (PMIPL) was initially established in the year 1978 as proprietorship concern by Dr. Champalal Desarda. Further, the company was re-constituted as private limited company in the year 1991 and currently managed by his son Mr. Shekhar Desarda. The company is engaged in manufacturing and installation of various machineries used in the pulp and paper industry. The company derives around 50 percent of the revenue from Capital goods and remaining from the sale of consumables & spares. The products offered by the company are widely used by Kraft, Tissue, Writing Printing and Hard Board Paper Mills. The company has 9 manufacturing units located in Aurangabad and branch offices in Secunderabad, Vapi, New Delhi, Nagpur, Kolkata, Coimbatore, Morbi and Indonesia.

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

Experienced management and established track record of operations

PMIPL is engaged in manufacturing and installation of various machineries used in the pulp and paper industry. It has an established operational track record of more than four decades. The company was initially established as a proprietorship concern in the year 1977 by Dr. Champalal Desarda who holds Doctorate in Metallurgy. Further, the company was reconstituted as private limited company in the year 1991 and currently managed by his son Mr. Shekhar Desarda (Chairman and MD) who possesses more than two decades of experience in the manufacturing of capital equipments, consumables and spares for the paper & pulp industry. He is ably supported by its qualified team of senior management in managing day to day operations. The extensive experience of the promoters has enabled PMIPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that PMIPL will continue to benefit from its experienced management and established track record of operations.

Healthy Financial risk profile

PMIPL's financial risk profile is healthy marked by healthy capital structure and coverage indicators. PMIPL's net worth stood at Rs.120 crore as on 31 March, 2021 as against Rs.106 crore as on 31 March, 2020. The company follows a conservative gearing policy of 0.18 times as on 31 March, 2021 marginally declining from 0.17 times as on 31 March, 2020. The total debt of Rs.22 crore as on 31 March, 2021 consists of long term bank borrowings of Rs.12 crore and short term working capital limit of Rs.10 crore. The coverage indicators remained healthy marked by interest coverage ratio of 30.68 times for FY2021 as against 19.87 times for FY2020 and DSCR stood at 23.91 times for FY2021 as compared to 19.09 times for FY2020. The Net Cash Accruals to Total debt stood at 0.87 times for FY2021 and 0.97 times as on FY2020. The Total outside liabilities to Tangible net worth stood at 0.75 times for FY2021 as against 0.53 times in FY2020.

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

Improving operating performance

PMIPL caters to both domestic and exports markets for the sale of its various machineries used in the pulp and paper industry along with the sale of consumables & spares and it has been able to achieve improvement in its scale of operations on the back of established relations with its customers & suppliers and diversified product profile. It has been dealing with its larger clients for over four decades. Some of its clienteles include West Coast Paper Mills, JK Paper Limited, Tamil Nadu Newsprint and Papers Limited, Emami Paper Mills Limited, Seshasayee Paper & Board Mills Limited amongst others. The company reported revenues of Rs.177 crore for FY2021 as against Rs.149 crore in FY2020 and Rs.151 crore in FY2019. Exports have significantly increased despite of pandemic situation in the year FY2021 to 38 percent as against 28 percent in FY2020 which has helped the company to achieve higher sales during FY2021 since the company has been able to overcome the impact of covid-19 pandemic due to an increase in demand from the various e-commerce segment for corrugated boxes and at the same time the demand for Kraft, Tissue & Writing paper during lockdown has been marginally impacted. The operating margin of the company therefore stood high at 14 percent in FY2021 as against 13 percent in FY2020. Further, the company achieved net profit at a similar level of Rs.13.73 crore in FY2021 as against Rs.13.05 crore in FY2020.

For the current year FY2022 as on November 2021, the company has achieved sales of Rs.154 crore out of which domestic sales comprises of 77 percent and export sales comprises of 23 percent. The operating margin stands high at ~20 percent with a net profit of Rs.25 crore during the same period. Going forward, the company plans to introduce new range of its machineries and consumables & spares on a year on year basis and upgrade its existing product portfolio in order to increase more amount of exports thereby maintaining the trend of continuous improvement in its scale of operations.

Acuité expects the PMIPL's ability to maintain its scale of operations while maintaining profitability will continue to remain a key rating sensitivity factor.

Weaknesses

Working capital intensive nature of operations

PMIPL's operations are highly working capital intensive marked by Gross Current Assets (GCA) of 179 days for FY2021 as against 170 days for FY2020. This is primarily on account of increase in debtor days which stood at 68 days in FY2021 as against 53 days in FY2020. On the other hand, there has been an improvement in the company's inventory and creditors cycle. The inventory days stood at 75 days in FY2021 as against 99 days in FY2020 whereas the creditors stood slightly improved at 66 days in FY2021 as against 69 days in FY2020. The company has moderate inventory holding period which is mainly on account of bulk purchases of steel to avail better pricing as well, at the same time end to end execution of order also takes around at least 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.

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

Margins susceptible to raw material prices 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.

Rating Sensitivities

- Ability to maintain scale of operations and maintaining profitability
- Any further elongation in working capital cycle

Material covenants

None

Liquidity Position - Strong

PMIPL has strong liquidity position marked by healthy net cash accruals against no maturing debt obligations. The company generated cash accruals in the range of Rs.14 crore – Rs.19 crore during FY2019 to FY2021 against no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.24 crore – Rs.35 crore for period FY2022 - FY2024 against no repayment obligation for the same period. The company's operations are moderately working capital intensive marked by gross current asset (GCA) days of 179 days for FY2021 due to its high inventory days. Current ratio stands at 1.25 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.10 crore in FY2021.

Acuité believes that the liquidity of the PMIPL is likely to remain strong over the medium term on account of healthy cash accrual and no major repayments over the medium term constrained to some extent on account of working capital intensive operations.

Outlook: Stable

Acuité believes that PMIPL will maintain a 'Stable' outlook in near to medium term on account of its experienced management and improving operating performance. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected growth in revenue while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to negative in case of moderation in liquidity profile and its profitability margins, and deterioration in debt protection indicators.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	176.52	148.66
PAT	Rs. Cr.	13.73	13.05
PAT Margin	(%)	7.78	8.78
Total Debt/Tangible Net Worth	Times	0.18	0.17
PBDIT/Interest	Times	30.68	19.87

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Application Of 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

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Mar 2022	Term Loan	Long Term	5.00	ACUITE A- | Stable (Reaffirmed)
	Cash Credit	Long Term	8.03	ACUITE A- | Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	5.28	ACUITE A- | Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- | Stable (Assigned)
	Bank Guarantee	Short Term	1.97	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- | Stable (Assigned)
26 Feb 2021	Cash Credit	Long Term	17.50	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Proposed Bank Facility	Short Term	3.98	ACUITE A2+ (Upgraded from ACUITE A2)
	Term Loan	Long Term	5.00	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Term Loan	Long Term	6.75	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Bank Guarantee	Short Term	1.97	ACUITE A2+ (Upgraded from ACUITE A2)

11 Dec 2019	Cash Credit	Long Term	17.50	ACUITE BBB+ | Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A2 (Assigned)
	Proposed Bank Facility	Short Term	0.70	ACUITE A2 (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB+ | Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB+ | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.97	ACUITE A2+ | Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.03	ACUITE A- | Stable | Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.97	ACUITE A- | Stable | Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- | Stable | Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	5.28	ACUITE A- | Stable | Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	5.00	ACUITE A- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	7.00	ACUITE A- | Stable | Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	7.00	ACUITE A- | Stable | Reaffirmed

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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 8,850 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 Kanjurmarg, Mumbai.

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