



Press Release
Parason Machinery India Private Limited
July 10, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.99	ACUITE A- Stable Assigned	-
Bank Loan Ratings	42.30	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	5.01	-	ACUITE A2+ Assigned
Bank Loan Ratings	3.95	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	67.25	-	-

Rating Rationale

Acuite 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 crore bank facilities of Parason Machinery India Private Limited (PMIPL). The outlook is '**Stable**'.

Acuite has also assigned 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)** to the Rs. 21 crore bank facilities of Parason Machinery India Private Limited (PMIPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation of PMIPL considers an improvement in the company's operational performance in FY2023 (estimate) and a healthy financial risk profile. The operating income of the company is estimated to be Rs. 291 crore in FY 2023E, as compared to Rs. 258 crore in FY 2022 and Rs. 177 crore in FY 2021. The operating margins, which are 12.17 percent in FY2022 as compared to 13.64 percent in FY2021, assessed to improve to 14% in FY2023E. The financial risk profile continues to remain healthy, marked by low gearing and moderate debt protection metrics. The rating is, however, constrained by PMIPL's moderately working capital-intensive operations and the susceptibility of the company's profitability to raw material prices and forex fluctuation risk. Going forward, the ability of the company to maintain its scale of operations and profitability margins while improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

PMIPL was initially established in 1978 as a proprietorship concern by Dr. Champalal Desarda. Further, the company was reconstituted as a private limited company in 1991 and is currently managed by his son, Mr. Shekhar Desarda. The company is engaged in the manufacturing and installation of various machines used in the pulp and paper industry. It derives around 50 percent of its revenue from capital goods and the rest from selling consumables and spares. They offer products that are used by Kraft, Tissue, Writing, Printing, and Hard Board paper mills. The company has nine 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 with an established track record of operations and a reputed clientele

PMIPL has an operational track record spanning more than four decades. The company was initially established as a proprietorship concern in 1978 by Dr. Champalal Desarda, who holds a doctorate in metallurgy. Further, the company was reconstituted as a private limited company in 1991 and is currently managed by his son, Mr. Shekhar Desarda (Chairman and MD), who possesses more than two decades of experience in the manufacturing of capital equipment, consumables, and spares for the pulp and paper industry. He is ably supported by a qualified team of senior management in managing the day-to-day operations of PMIPL. The extensive experience of the management has enabled PMIPL to establish a healthy relationship with its reputed clientele, like ITC Limited, JOEFL Paper Mills, West Coast Paper Mills, Astron Paper and Board Mill, JK Paper Limited, Tamil Nadu Newsprint and Papers Limited, and Century Paper & Board Mills Limited, amongst others.

Acuité believes that PMIPL will continue to benefit from its experienced management, an established track record of operations, and a reputed clientele.

Healthy financial risk profile

The financial risk profile of PMIPL is healthy, marked by a healthy net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the company improved to Rs. 133 crore as of March 31, 2022, as against Rs. 120 crore as of March 31, 2021, due to healthy accretion to reserves. The gearing (debt-equity) stood lower at 0.21 times as of March 31, 2022, as against 0.18 times as of March 31, 2021. The gearing of the company is expected to improve further and remain low over the medium term in the absence of any debt-funded capex plans. The total debt of Rs. 28 crore as of March 31, 2022, consists of long-term bank borrowings of Rs. 15 crore and short-term bank borrowings of Rs. 13 crore.

The interest coverage ratio, though declining, remained healthy at 19.08 times for FY2022 as against 30.68 times for FY2021, whereas the DSCR stood at 4.76 times for FY2022 as against 3.50 times for FY2021. The net cash accruals to total debt ratio improved to 1.11 times for FY2022 as against 0.87 times for FY2021. The total outside liabilities to tangibles stood marginally higher at 0.79 times for FY2022 as against 0.75 times for FY2021. The debt-to-EBITDA ratio stood at 0.63 times for FY2022 as against 0.86 times for FY2021.

Acuité believes that the financial risk profile of PMIPL will remain healthy over the medium term due to its low debt levels, healthy tangible net worth, and comfortable debt protection metrics.

Improved operating performance

PMIPL reported an increase in its revenue of Rs. 291 crore in FY 2023 (estimate) as against Rs. 258 crore in FY 2022 and Rs. 177 crore in FY 2021. The growth in the company's revenue over the years is primarily driven by the company's established presence of more than four decades in serving the pulp and paper industry across both the domestic and export markets and manufacturing a wide range of machines for producing Kraft, tissue, and writing paper. It also deals in the manufacturing of a wide range of consumables and spares, such as rotors, gear boxes, shaft sleeves, and others.

Despite the increase in overall operating costs, the operating margin of the company is, however, estimated to improve to 14.00 percent in FY2023E as against 12.17 percent in FY2022 on account of reduced steel prices during the year, which is a major raw material being used by the company. On the other hand, the net profit margin of the company is estimated to remain lower in the range of 8 to 9 percent in FY2023 as against 9.24 percent in FY2022 due to an increase in the depreciation charged during the year.

Acuité believes that PMIPL's ability to maintain its scale of operations and profitability will remain a key rating sensitivity factor.

Weaknesses

Moderately intensive working capital operations

The working capital operations of PMIPL are moderately intensive, as marked by its gross current assets (GCA) of 137 days for FY2022, which improved as against 179 days for FY2021. This is due to the inventory and receivables cycles of the company, which, though elongated, recorded an improvement in FY2022 of 52 days and 64 days, respectively, as against 75 days and 68 days, respectively, in FY2021. Further, the creditors cycle of the company also stood at 31 days in FY2022 as against 66 days in FY2021.

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

Acuité believes that the ability of PMIPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Margins are susceptible to raw material prices and foreign exchange fluctuation risk.

Steel, being the major raw material utilised by PMIPL, 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 mechanisms and a price escalation clause in its contracts. Further, exports contribute 35 percent of the revenue for PMIPL; this poses a foreign exchange fluctuation risk to PMIPL in the absence of adequate hedging mechanisms, making the operating income and profitability margins volatile.

Rating Sensitivities

- Ability to maintain scale of operations and profitability
- Ability to improve and maintain an efficient working capital cycle

Material covenants

None

Liquidity Position - Strong

PMIPL has a strong liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs. 18 crore to Rs. 31 crore during FY2020 to FY2022 against its repayment obligation of Rs. 5 crore during the same period. Going forward, the NCA is expected to be in the range of Rs. 31 crore to Rs. 39 crore for the period FY 2023–FY 2025, against its repayment obligation of Rs. 2 crore to Rs. 3 crore during the same period. The working capital operations of the company are moderately intensive, as marked by its gross current asset (GCA) days of 137 for FY2022. The current ratio stands at 1.17 times as of March 31, 2022. The company has maintained a cash and bank balance of Rs. 5 crore in FY2022.

Acuité believes that the liquidity of PMIPL is likely to remain strong over the medium term on account of healthy cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that PMIPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations and healthy

financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	258.62	176.52
PAT	Rs. Cr.	24.37	13.73
PAT Margin	(%)	9.42	7.78
Total Debt/Tangible Net Worth	Times	0.21	0.18
PBDIT/Interest	Times	19.08	30.68

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Jun 2023	Term Loan	Long Term	5.28	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.97	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
22 Mar 2022	Bank Guarantee	Short Term	1.97	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	8.03	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.28	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	1.97	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
07 Mar 2022	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)
	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)
	Cash Credit	Long Term	17.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
		Short		

26 Feb 2021	Bank Guarantee	Term	1.97	ACUITE A2+ (Upgraded from ACUITE A2)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	3.95	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	4.05	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.01	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.99	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.96	ACUITE A2+ Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.64	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.65	ACUITE A- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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