



Press Release
Parason Machinery India Private Limited
October 03, 2024
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.58	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	28.40	-	ACUITE A2+ Assigned
Bank Loan Ratings	20.67	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	95.65	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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

Acuite has also assigned the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.28.40 Cr. bank facilities of Parason Machinery India Private Limited (PIMPL).

Rationale for rating:

The reaffirmation of rating considers stable improvement in operating income in FY2024, decent order book position and healthy financial risk profile. In FY2024, PIMPL's revenue improved by 4 percent against previous year's, primarily led by repetitive orders while reduced steel prices and focus on operational efficiency aided in improvement of operating profit margin. Additionally, the company registered revenue of Rs.78 Cr. in the first three months of FY2025 which is 35 percent higher than previous year's revenue during same period. Along with the outstanding order book of Rs.104 Cr. to be executed in next 3-6 months, the company's revenue is expected to grow at a rate of 5-10 percent in the current year. The rating also draws comfort from the healthy financial risk profile and strong liquidity position of the company. Going forward, sustaining the revenue and profitability growth and maintenance of healthy financial risk profile will be a key monitorable.

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.

Unsupported Rating

Not applicable

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

Stable growth in operations:

PMIPL's has registered revenue of Rs.311.52 Cr. in FY2024 (Prov.) posting a growth rate of ~6 percent against Rs.294.62 Cr. in FY2023 and Rs.258.82 Cr. in FY2022. 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 entire pulp and paper industry across both domestic and exports market towards manufacturing wide range of machineries used for producing Kraft, Tissue & Writing paper. It also deals in manufacturing wide range of consumables & spares such as rotors, gear boxes, shaft sleeves amongst others. The company has established relationship with its reputed clienteles in the paper industry such as ITC limited, JOEFL Paper Mills, West Coast Paper Mills, Astron Paper and Board Mill, JK Paper Limited, Tamil Nadu Newsprint and Papers Limited, Emami, Century Paper & Board Mills Limited amongst others from whom they receive repetitive orders.

The operating profit margins also improved to 16.87 percent in FY2024 (Prov.) against 14.77 percent in FY2023 and 12.17 percent in FY2022 on account of reduced steel prices and focusing on operational efficiency. Net profit margin is also shown stable improvement with 11.30 percent in FY2024 (Prov.) against 9.65 percent in FY2023 and 9.42 percent in FY2022. Acuite expects, the operations of PMIPL will show stable improvement over the medium term on account of stable flow of orders.

Healthy financial risk profile:

PMIPL's financial risk profile is healthy marked by healthy network, low gearing and healthy debt protection metrics. The network of the company stood at Rs.196.25 Cr. as on March 31, 2024 (Prov.) compared to Rs.161.05 Cr. The improvement in network is due to accretion of profits to the reserves. Despite the marginal increase in overall debt levels to Rs.34.06 Cr. as on March 31, 2024 (Prov.) from Rs.29.61 Cr. as on March 31, 2023, the gearing levels remained low at 0.17 times. Further, the total outside liabilities to tangible network (TOL/TNW) also remained low at 0.90 times as on March 31, 2024 (Prov.) against 0.62 times as on March 31, 2023. The gearing of the company is expected to improve further and remain low over the medium term on account of absence of any debt funded capex plans. The debt protection metrics stood healthy with DSCR and ICR of 11.67 times and 21.43 times respectively as on March 31, 2024 (Prov.) Debt to EBITDA also remained healthy at 0.77 times as on March 31, 2024 (Prov.) against 0.60 times as on March 31, 2023. Acuite believes that the financial risk profile of the company will remain healthy over the medium term due to its conservative leverage policy.

Weaknesses

Working capital intensive nature of operations:

PMIPL's operations are working capital intensive in nature as reflected by the gross current assets (GCA) days of 240 days in FY2024 (Prov.) against 138 days in FY2023. The elongated GCA days is on account presence of large amount of advances to suppliers. The inventory and receivables cycle remained elongated at 62 days and 88 days respectively in FY2024 (Prov.) against 52 days and 68 days respectively in FY2023. However, the payable period has been stretched during the FY2024 (Prov.) to 161 days, resulting in minimal dependency on the fund based working capital limits. Acuite expects the operations of the company to remain working capital intensive on account of the presence of large amount of advances to suppliers and stretched receivable period.

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
- Improvement in working capital operations cycle.

Liquidity Position: Strong

PMIPL's liquidity position is strong, supported by healthy net cash accruals (NCA') and unencumbered cash & bank balances. The company has registered NCA's of Rs.42.72Cr in FY2024 (Prov.) against the repayment obligation of Rs.1.78Cr. Going forward, PMIPL is expected to register NCA's in the range of Rs.43-50Cr over the medium term which would comfortably meet the expected nominal debt repayment obligation range of Rs.2-2.5Cr for the same period. Additionally, the company had a free cash and balances of Rs.5.78Cr as on March 31, 2024 (Prov.) which further strengthens the liquidity. The GCA days are elongated at 240 days in FY2024 (Prov.) primarily due to high amount of advances to suppliers. However, the extended payable period provides comfort in the working capital cycle, reflects the company's strong relations with its suppliers.

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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	311.52	294.62
PAT	Rs. Cr.	35.19	28.43
PAT Margin	(%)	11.30	9.65
Total Debt/Tangible Net Worth	Times	0.17	0.18
PBDIT/Interest	Times	21.43	44.29

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
10 Jul 2023	Term Loan	Long Term	1.64	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.65	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	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	14.01	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.99	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	3.95	ACUITE A2+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	4.05	ACUITE A2+ (Assigned)
	Proposed Short Term Bank Facility	Short Term	0.96	ACUITE A2+ (Assigned)
16 Jun 2023	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.28	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	1.97	ACUITE A2+ (Reaffirmed)
22 Mar 2022	Bank Guarantee/Letter of Guarantee	Short Term	1.97	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	8.03	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	1.97	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.28	ACUITE A- Stable (Reaffirmed)
	Term Loan	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)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Reaffirmed)

07 Mar 2022	Cash Credit	Long Term	8.03	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.28	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE A- Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	1.97	ACUITE A2+ (Reaffirmed)
26 Feb 2021	Cash Credit	Long Term	17.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	6.75	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	5.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee (BLR)	Short Term	1.97	ACUITE A2+ (Upgraded from ACUITE A2)
	Proposed Short Term Bank Facility	Short Term	3.98	ACUITE A2+ (Upgraded from ACUITE A2)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Axis Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	8.00	Simple	ACUITE A2+ Reaffirmed
Axis Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE A2+ Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	15.00	Simple	ACUITE A- Stable Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE A- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE A- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	12.67	Simple	ACUITE A2+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	8.40	Simple	ACUITE A2+ Assigned
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	25 Apr 2024	Not avl. / Not appl.	25 Mar 2029	4.73	Simple	ACUITE A- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Term Loan	30 Jun 2021	Not avl. / Not appl.	30 May 2025	0.27	Simple	ACUITE A- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Term Loan	30 Nov 2019	Not avl. / Not appl.	30 May 2025	0.29	Simple	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	01 Apr 2022	Not avl. / Not appl.	01 Aug 2027	1.29	Simple	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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