

Press Release

Sushila Parmar International Private Limited

May 20, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 295.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the above mentioned bank facilities of Rs. 295.00 crore availed by Sushila Parmar International Private Limited (SIPL). The outlook is '**Stable**'.

Maharashtra based SIPL, was established as a proprietary concern in 2002 and reconstituted as private limited company in March 2010. The company is promoted by Mr. Rohit Parmar. SIPL primarily trades in PVC resin, followed by Chlorinated polyvinyl chloride (CPVC). It is also registered Del Credere Associate – cum – consignment stockist for ONGC Petro additions Limited (OPaL). OPaL's business adds to revenues as commission income and contributes around 10-15 percent of the total earnings of the company. SIPL for PVC resin business, has established distribution network with pan India presence and caters to customers across the most remote places in India. Its diversified customer base includes mid-sized PVC pipe manufacturers and other manufacturers using PVC as raw material and SME industries across India.

Analytical Approach

Acuité has considered standalone business and financial risk profile of Sushila Parmar International Private Limited (SIPL) while arriving at the rating.

Key Rating Drivers

Strengths

• Experienced management and establish track record of operations

SIPL has established presence of over a decade in PVC, CPVC trading industry since 2002. The key promotor Mr. Rohit Parmar has more than two decades of experience in same line of business. The extensive experience of key promoter and established presence in the industry has helped company in developing longstanding relationships with its customers and suppliers. The same is reflected through improvement in scale of operations. The revenues have grown at a compounded annual growth rate of 10.37 percent over the last four years through FY2020 (provisional). The operating income of the company stood improved at Rs. 941.34 cr. in FY2020 (Provisional) as against Rs. 886.87 crore in FY2019 and Rs. 816.74 crore in FY2018. The growth is on account of healthy volume offtake and expansion into new territories. Further, the company is well supported by second line of management. Acuité believes the company will continue to be benefited from extensive experience of promoters, establish presence, increasing demand, lower prices of imports as compared to domestic manufacturer's, and lack of domestic manufacturing capacity vis ~a ~vis demand over near to medium term.

• Established distribution network, diversified customer base and efficient working capital cycle

The company has wide distribution network with 10 strategically located warehouses and port establishments with pan-India presence. It has five major warehouses in the port areas of Nhava Sheva, Kolkata, Chennai, Mundra and Pipavav (Gujarat), while the other warehouses are located in New Delhi (catering to North Indian market), Indore (Madhya Pradesh), Daman (Gujarat), and Pune and Kolhapur (Maharashtra, OPaL warehouses). Further, the company has customers across the most remote places in India and reaching over 395 locations in 24 states. SIPL uses its widespread port establishments to route the

shipment towards the required region of demand, efficiently managing its inventory and fulfilling customer orders.

The operations of SIPL are efficiently managed as reflected in comfortable working capital cycle marked by Gross Current Assets (GCA) of 70 days in FY2019 and 61 days in FY2018. This receivable period stood at 37 days in FY2019 and 36 days in FY2018. The inventory holding period stood at 22 days in FY2019 as against 14 days in FY2018. The payable period has increased to 70 days in FY2019 as compared to 61 days in FY2018. However, the average non fund based bank limit utilisation stood at ~96.22 percent for the last six months ended March 2020. Acuité believes that, the company's ability to scale up its operations while managing its working capital cycle and its dependence on external borrowings will remain a key rating sensitivity.

• **Moderate financial risk profile**

The financial risk profile of the company is marked by moderate net worth, comfortable gearing and debt protection metrics. The net worth of the company stood healthy at Rs. 51.69 crore in FY2019 as compared to Rs. 44.76 crore in FY2018. This improvement in networth is mainly due to healthy accretion to reserve, which inturn is a result of improvement in its scale of operations. The gearing of the company stood comfortable at 0.42 times as on March 31, 2019. The total debt of Rs. 21.95 crore in FY2019 consists of long-term debt of Rs.2.89 crore and short term debt of Rs.19.06 crore as on 31st March 2019. Interest coverage ratio (ICR) stood at 2.91 times in FY2019 as against 3.59 times in FY2018. The debt service coverage ratio (DSCR) stood at 2.16 times in FY2019 as against of 2.71 times in FY2018. The net cash accrual against total debt (NCA/TD) stood at 0.34 times in FY2019 as compared to 9.46 times in previous year. However, TOL/TNW stood high at 3.80 times in FY2019 as against 3.41 times in FY2018. Total Outsider Liabilities majorly consist of trade payables which are backed by LC upto 180 days. Acuité believes the financial risk profile of the company will remain moderate on account of establish presence in the industry, expected improvement in scale of operations, and efficient working capital management.

Weaknesses

• **Low margins inherent to trading business**

The operating and net profitability margins of the company stood thin and uneven due to trading nature of operations. The operating and net profit margin stood at 2.05 percent and 0.78 in FY2019 as against 2.15 percent and 1.05 percent in FY2018 despite of improvement in scale of operations. Further, major raw materials for SIPL is PVC resin which are mainly imported (contributes more than 50 percent) and their prices remain susceptible to forex fluctuation. Hence, any adverse movement in forex fluctuation will impact the profitability. However, the company adequately covers their forex exposure under the forward contracts, so the margins are protected against any fluctuation in forex rate to that extent.

• **Cash flows susceptible to economic slowdown and sluggish demand in end user industry**

SIPL's operations are impacted by current economic slowdown, sluggish demand and ongoing COVID19 lockdown. Furthermore, end user industry like Infrastructure, construction, packaging and real estate is currently facing slowdown due to close down of economic activities having impact on revenues in first two quarters of FY2021. The revival of demand in these sectors and realisation in receivables may take longer than expected. In event of prolonged economic slowdown regular flow of orders and operating performance of players like SIPL may get impacted. Also, competition in the industry from organised as well as midsize regional traders along with low entry barriers, further constrained by limited product portfolio and low value addition. However, company majorly caters to agriculture and irrigation sector which is expected to be relatively insulated from the current disruption in business environment.

Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Sustaining existing financial risk profile and liquidity
- Efficient management of working capital cycle and debt protections metrics

Liquidity Position: Adequate

Acuité believes that the company has strong liquidity marked by sufficient net cash accruals of Rs. 7.39 crore as against Rs.0.05 -0.25 crore of yearly debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 7.00 to 8.50 crore during 2020-22 against Rs.0.10 to 0.30 crore repayment obligations. The gross current asset (GCA) days stood comfortable at 70 days in FY2019. The bank limit is 96.22 per cent utilized by the company for last six months ended 31st March 2020. The current ratio of the company stood at 1.15 times as on March 31, 2019. Acuité believes that the increase in company scalability resulting in improvement in net cash accruals along with unutilized bank lines will be sufficient to fund its incremental working capital requirements over near to medium term.

Outlook: Stable

Acuité believes that the company will continue to benefit over the medium term from its management's extensive experience and established position in PVC, CPVC trading industry. The outlook may be revised to 'Positive' if there is a substantial and significant increase in the company's revenues along with sustained profitability margins. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in profitability margins, or significant deterioration in its capital structure most likely because of a stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	886.87	816.74
PAT	Rs. Cr.	6.92	8.58
PAT Margin	(%)	0.78	1.05
Total Debt/Tangible Net Worth	Times	0.42	0.02
PBDIT/Interest	Times	2.91	3.59

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-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Application of Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-20.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	1.35	ACUITE A-/Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.36	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A-/Stable (Assigned)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A-/Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	0.14	ACUITE A-/Stable (Assigned)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A-/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	85.00*	ACUITE A2+ (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	85.00**	ACUITE A2+ (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	33.00^	ACUITE A2+ (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE A2+ (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2+ (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ (Assigned)

*ILC/FLC with Usance of 180 days of Rs. 130.00 Cr., Back to Back LC of Rs. 5.50 Cr. and Bank Guarantee of Rs. 2.40 Cr.

**ILC/FLC, Sight/DA Usance 90/180 days/Usance Payable at Sight, Rs.5.50 Cr. back to back LC, and Bank Guarantee of Rs. 1.50 Cr.

^Back to Back LC of Rs.2.00 Cr.

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About Acuité Ratings & Research:

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