

Press Release

Industrial Product Expo

July 27, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BB-/Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs100.00 crore bank facilities of Industrial Product Expo (IPE). The outlook is '**Stable**'.

Established in 2000, Industrial Product Expo is a Chennai, Tamil Nadu based partnership firm engaged in manufacturing of cotton gloves and trading of packing materials like PPE (Packing Materials) and safety items like Hand Protection, Head Protection, Eye Protection, Face Protection. Currently, the firm is managed by its partners Mr. P. G. Aananth and Mr. N. Ganapathy Subramaniyan. The firm procures raw materials and other trading materials locally from Chennai and nearby areas and sells mostly in Chennai and other parts of Tamil Nadu.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of IPE to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

Established in 2000, Industrial Product Expo initially started as a proprietorship entity which later on got converted into a partnership firm in February, 2020. Thus, the firm has an operational track record of two decades in the industry. The partner of the firm Mr. N. Ganapathy Subramaniyan has experience of nearly 5 years who took over the business from his father in 2015. The long track record of operations and experience of management have helped the firm maintain a healthy relationship with its customers and suppliers. Acuite believes that the firm will sustain its existing business profile on the back of an established track record of operations and experienced management.

- Expected moderation in the financial risk profile**

The firm has a moderate financial risk profile, marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the firm estimated at Rs14.85 crore as on 31st March, 2020 (Provisional) as compared to Rs10.91 crore in the previous year. The gearing (debt-equity) estimated healthy at 0.01 times as on 31st March, 2020 (Provisional) as compared to 0.02 times as on 31st March, 2019 on account of minimal external debt. However, the gearing is expected to increase over the medium term on account of the increase of working capital borrowings over the same period. The total debt of Rs 0.17 crore on 31st March, 2020 (Provisional) consists of Vehicle loan. The coverage indicators estimated healthy marked by Interest coverage ratio at 53.89 times in FY 2020 (Provisional) as against 17.63 times in FY 2019. NCA/TD (Net Cash Accruals to Total Debt) ratio expected at 20.28 times in FY 2020 (Provisional) as against 5.72 times in FY2019. Debt to EBITDA estimated at 0.04 times in FY 2020 (Provisional) as against 0.16 times in FY2019. The debt protection metrics are expected to deteriorate on account of future working capital borrowing plan.

Weaknesses

• Geographical concentration risk

IPE is engaged in manufacturing of cotton gloves and trading of packing materials like PPE (Packing Materials) and safety items like Hand Protection, Head Protection, Eye Protection and Face Protection for two decades. The company derives its entire revenues from Tamil Nadu and therefore is exposed to significant geographic concentration risk. The geographical concentration limits the firm's bargaining power. Moreover, any adverse regulations within the state may affect the operations of the firm.

• Moderate scale of operations and moderate profitability

The scale of operations of the firm stood moderate at Rs 171.03 crore in FY 2020 (Provisional) as compared to Rs 141.56 crore in FY 2019. The operating profit of the firm stood at 2.52 percent in FY 2020 (Provisional) as compared to 0.95 percent in FY 2019. The improvement in operating profit is on account of the decrease in raw material costs. The operating revenue of the firm is expected to improve in the near to medium term on account of the addition of trading of 3 ply mask, N95 mask, Infrared thermometer, temperature measuring kit and Disinfectant Spray Vehicle.

Rating Sensitivity

- Substantial growth in revenue coupled with improving its profitability
- Improvement in debt protection metrics

Material Covenants

None

Liquidity Profile: Adequate

The firm has adequate liquidity marked by sufficient cash accruals to its maturing debt obligations. The firm generated cash accruals in FY 2020 (Provisional) estimated around Rs3.47 crore as against debt obligations of Rs 0.03 crore during the same period. The cash accruals of the firm are expected to remain adequate at around Rs 2.77-3.57crore during 2021-2022 against repayment obligation of around Rs 0.03 crore during the same period. The firm has prudent working capital operations marked by estimated Gross Current Assets (GCA) of 40 days in FY 2020 (Provisional) as compared to 33 days in FY 2019. The firm maintains unencumbered cash and bank balances of Rs 0.04 crore as on 31st March, 2020 (Provisional). The current ratio estimated at 4.13 times as on 31st March, 2020 (Provisional). Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable

Acuite believes that IPE will maintain 'Stable' outlook over the medium term from its promoter's experience in the industry and moderate financial risk profile. The outlook may be revised to 'Positive' if the firm achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve growth in revenue and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	171.03	141.56
PAT	Rs. Cr.	3.05	1.12
PAT Margin	(%)	1.78	0.79
Total Debt/Tangible Net Worth	Times	0.01	0.02
PBDIT/Interest	Times	53.89	17.63

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

None

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Trading entities-<https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB-/ Stable (Assigned)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB-/ Stable (Assigned)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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