

Press Release

P M Offset Printers

November 11, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.5.00 Cr.
Long Term Rating	ACUITE B+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' (**read as ACUITE single B plus**) on the Rs.5.00 crore bank facilities of P M Offset Printers (PMOP). The outlook is '**Stable**'.

About the company

Bangalore based P M Offset Printers (PMOP) was established as a partnership firm in the year 1999 by Mr. Sunku Gundiah Ajay, who is having more than 2 decades of experience in a similar line of business. The firm is engaged in the printing of Banners, Leaflets, Posters, Stickers, Garment Tags, Labels, Cartons, Literature, Catalogues, House journal, Rigid Boxes amongst others.

The rating assigned to the bank facilities of PMOP in its established track record of operations, experienced management, moderate financial risk profile and marginal improvement in scale of operation. These strengths are offset by its working capital intensive nature of operations, modest scale of operations and elongated receivables period.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PMOP to arrive at the rating

Key Rating Drivers

Strengths

- Long track record of operations, experienced management, improving scale of operations albeit remained modest**

PMOP has a long track record of operations with its existence since 1999. Mr. Sunku Gundiah Ajay (Managing Partner) has more than two decades of experience in printing and technology. The promoters' extensive experience and long track record have helped PMOP in improving its scale of operations and build established relationships with its key suppliers and customers over the years. PMOP's revenue grew at a compounded annual growth rate (CAGR) of 6.58 percent over the period of FY2018-2020. The firm generated revenue of Rs.14.57 Cr in FY2018, Rs.15.14 Cr in FY2019 and Rs.16.55 Cr in FY2020 (Provisional). Around 87 percent of the sales are to its group company named Parimal Mandir; which is engaged in manufacturing of Agarbattis. PMOP has recorded revenue of Rs.9.03 Cr year-to-date until September, 2020 of FY2021. Acuité believes that the PMOP will continue to benefit from its experienced management, long track of business operations over the medium term.

- Moderate financial risk profile**

PMOP financial risk profile is moderate marked by moderate capital structure and debt protection metrics. Net worth is moderate at Rs.8.09 crore as on 31 March, 2020 (provisional) vis-à-vis Rs.6.93 crore as on 31 March, 2019 on account of modest net cash accruals underpinning modest scale of operations. The capital structure of the firm remained moderate with a debt-to-equity ratio of 0.16 times as on March 31, 2020 (Provisional) as against 0.19 times as on March 31, 2019. Debt protection metrics also remained moderate with interest coverage ratio (ICR) stood at 11.68 times in FY2020 (Provisional) as against 10.56 times in FY2019. ICR has improved on account of marginal decline in interest expenses. DSCR stood at 4.43 times as on March 31, 2020 (Provisional) as against 7.76 times as on March 31, 2019. TOL/TNW stood at 0.87 times as on March 31, 2020 (Provisional) as against 0.71 times as on March 31, 2019. Acuité believes that the financial risk profile of the firm is expected to be moderately leveraged owing to debt-funded capex plan over the medium term.

- **Satisfactory profitability margins albeit fluctuating**

The profitability margins of the firm remained satisfactory although fluctuating over the period on account of price competition in order to secure the orders from customers. The operating margins of the firm stood at 9.75 percent in FY2020 (Provisional) as against 11.41 percent in FY2019 and 10.70 percent in FY2018. PAT margins of the firm stood at 4.87 percent in FY2020 (Provisional) as against 5.04 percent in FY2019 and 5.76 percent in FY2018. The PAT margins declining on account of increase in depreciation charged and interest expense. Acuité believes that the profitability margins of the firm expected to remain at similar levels over the medium term.

Weaknesses

- **Modest scale of operations and moderate project risk associated with on-going capacity expansion**

The scale of operations of the firm remained modest during the review period. PMOP's revenue grew at a compounded annual growth rate (CAGR) of 6.58 percent over the period of FY2018-2020. The firm generated revenue of Rs.14.57 Cr in FY2018, Rs.15.14 Cr in FY2019 and Rs.16.55 Cr in FY2020 (Provisional). The revenue of the firm improving marginally Y-o-Y on account of limited capacity. PMOP is planning for capex of Rs.5.00 Cr. for installing new offset printing machinery which will be funded by Rs.4.50 Cr term loan and remaining through internal accruals. The addition of new machinery will provide benefit to the firm in improving revenue from FY2022 onwards; aiding the firm to meet the continuous demand from its existing as well as new clients. The funding proposal is under review with the lender and is not yet tied-up. The plant and machinery are yet to be procured and is to be set up at the existing facility itself; leading to the shorter time of project completion. The demand risk is moderate driven by PMOP's existence in the printing industry and continued demand from its customers to drive the new plant at higher levels of capacity.

- **Elongated working capital cycle**

PMOP's operations are capital intensive with Gross Current Assets (GCA) of about 256 days in FY2020 (provisional) as against 203 days in FY2019. The high GCA days are mainly on account of increase in debtor days from 164 days in FY2019 to 203 days in FY2020 (Provisional) on account of stretched receivables from a group company. These are offset by creditor days 167 days in FY2020 (provisional) as against 117 days in FY2019. Inventory days stood at 48 days in FY2020 (provisional) as against 36 days in FY2019. The average working capital limit utilization was almost 95 percent for the past six months ended in October 2020. Acuité believes that the working capital cycle will remain intensive over the medium term.

Rating Sensitivities

- Timely completion of the capital expenditure plan leading to substantial improvement in scale of operations and operating profit
- Further stretch in debtor days leading to deterioration in the liquidity position

Any Material Covenants: None

Liquidity Position: Adequate

PMOP has adequate liquidity marked by modest net cash accruals as compared to its maturing debt obligations. PMOP generated net cash accruals of Rs.1.50 Cr for FY2020 vis-à-vis maturing debt obligations of Rs.0.23 Cr over the same period. The cash accruals are estimated to be around Rs.1.40-2.20 Cr during FY2021-23 vis-à-vis repayment obligations in the range of Rs.0.25 Cr to Rs.0.85 Cr. PMOP maintained unencumbered cash and bank balances of Rs.0.01 Cr as on March 31, 2020. The current ratio stood moderate at 1.70 times as on March 31, 2020 (Provisional). The working capital limits of the firm remained utilized at 95 percent for the last six months ended October, 2020. Acuité believes that the firm's liquidity is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that PMOP will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of better-than-expected revenue and profitability margin or improvement in working capital management leads to better financial risk profile and liquidity. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or profitability, or any further stretch in its working capital management leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	16.55	15.14
PAT	Rs. Cr.	0.81	0.76
PAT Margin	(%)	4.87	5.04
Total Debt/Tangible Net Worth	Times	0.16	0.19
PBDIT/Interest	Times	11.68	10.56

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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 bank facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+/ Stable (Assigned)

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About Acuité Ratings & Research:

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