



Press Release
PHPC ASSOCIATES
August 11, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.00	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	31.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **ACUITE B+ (read as ACUITE B plus)** on Rs.31.00 Cr bank facilities of PHPC Associates (PA). The outlook is 'Stable'

Rationale for the rating

The rating assigned takes into account the extensive experience of the proprietor, Mr. Umesh Hegde, of over two decades in the trading and distribution of bitumen. The rating also derives strength from the significant improvement in the scale of operations in FY2023 (prov), with ~90 per cent y-o-y growth in the operating income. However, the rating remains constrained by stretched liquidity marked by regular overutilisation in the overdraft facility, low profitability owing to trading nature of operations, leveraged capital structure, susceptibility to fluctuation in bitumen prices, highly competitive and fragmented trading industry, constitution of the entity as a proprietorship firm with inherent risk of withdrawal of capital and geographically concentrated revenue profile.

About the Company

Established in the year 2012 as a proprietorship concern by Mr. Umesh Hegde, PHPC Associates (PA) is engaged in the trading of bitumen, emulsion and furnish oil. The products are used mostly in construction of roads, bridges, fly overs, airport runways, tunnels and dams. The firm imports bulk bitumen from Arab countries and sells to the road contractors across South India. The firm purchases emulsion, furnish oil from local suppliers.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of PA while arriving at the rating.

Key Rating Drivers

Strengths

Experienced proprietor

The proprietor, Mr, Umesh Hegde, has more than 25 years of experience in bitumen trading and transportation through his association with the Hegde Group. The Hegde Group includes Hegde Bulk Carriers and PHPC Associates. Hegde Group is a leading group for bitumen logistics and bitumen trading in southern India. The proprietor is also the founder president of All India Bulk Bitumen Transporters Association. Acuite believes that the extensive experience of the proprietor in bitumen trading shall support the business risk profile to an extent, resulting in steady growth in the scale of operations.

Significant improvement in the scale of operations in FY23 (Provisional)

The operating income of the firm increased significantly to Rs.490.71 Cr in FY2023 (Prov) as against Rs.257.83 Cr in FY2022, thereby registering an y-o-y growth of ~90 per cent on account

of pent-up demand and various infrastructure development initiatives taken by the government ahead of elections in 2024. Acuite believes that the scale of operations is likely to be sustained in the near to medium term backed by healthy demand from the infrastructure sector.

Weaknesses

Average financial risk profile

The average financial risk profile of the firm is marked by modest net worth, high gearing and moderate debt protection metrics. The tangible net worth of the firm stood at Rs.14.71 Cr as on March 31, 2023 (Prov) as against Rs.13.00 Cr as on March 31, 2022 due to retention of profits in the partner's capital account. Gearing of the firm stood high yet improved at 2.81 times as on 31st March, 2023 (Prov) as against 3.62 times as on March 31, 2022. The gearing is expected to increase in FY24 as the firm plans to avail a term loan for setting up an emulsion plant and bitumen storage tank. The total cost of the project is Rs.10.13 Cr which is to be funded partly through Rs.3.33 Cr from promoter's contribution and remaining Rs.6.80 Cr through term loan. The financial closure has been achieved and Rs.2.42 Cr of term loan has been disbursed till 30th June 2023. The scheduled time for completion of the project is 31st August 2023. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 4.08 times as on March 31, 2023 (Prov) as against 3.96 times as on March 31, 2022. The moderate debt protection metrics is marked by Interest Coverage Ratio at 2.40 times as on March 31, 2023 (Prov) as against 1.61 times as on March 31, 2022; DSCR stood at 1.44 times as on March 31, 2023 (Prov) as against 1.61 times as on March 31, 2022. Despite increase in the gearing level in near term, the coverage indicators would remain comfortable to service its debt obligation timely. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31st March 2023 (Prov) as against 0.04 times as on March 31, 2022. Acuite expects that in spite of the debt funded capex plan in the near term, the financial risk profile of the firm will be sustained backed by steady accruals.

Low profitability

Due to trading nature of operations and high customs duty payment, the profitability margins remain low. The margin remains susceptible to volatile nature of raw material prices. The EBITDA margin increased to 1.64 per cent in FY2023 (Prov) as against 1.04 per cent in FY2022 due to cost rationalisation. The PAT margin also increased to 0.49 per cent in FY2023 (Prov) as against 0.21 per cent. Further, the ROCE increased to 12.33 per cent in FY2023 (Prov) as against 6.45 per cent in FY2022. Acuite expects that the margins shall improve but remain range bound in the near to medium as the company is installing an emulsion plant and bitumen storage tank.

Geographical concentration risk and vulnerability of operating margin to fluctuations in forex rates

The firm remains exposed to geographical concentration risk as southern India accounts for the 100% of the total revenues. Acuite believes that diversification of the customer base will remain a key rating sensitivity. Any changes in the trade policy, political unrest or natural calamities can impact the operations of the firm. Since majority of procurement comes from the international market, any sharp fluctuation in forex rates affects procurement cost and accrual. This exposes the operating margin to fluctuations in forex rates.

Proprietorship nature of business

PA, being a proprietorship firm, is exposed to inherent risk of withdrawal of capital by the proprietor, restricted access to funding and risk of dissolution on account of poor succession planning. Furthermore, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Rating Sensitivities

- Sustenance of the profitability margins while scaling up of operations.

- Elongation of working capital cycle.
- Deterioration in the liquidity profile.

Material covenants

None.

Liquidity Position

Stretched

The firm's liquidity position is stretched marked by over utilization of overdraft facility in almost every consecutive month, with average utilization for last six months ended June 2023 being ~97 per cent. The primary reason for overutilization is that in certain instances the firm's collections are delayed and they have to make payment for the imports, however, the account is regularized in 15-20 days. Further, the current ratio declined but stood moderate at 1.26 times as on March 31, 2023 (Prov) as against 1.49 times as on March 31, 2022. The firm has a cash and bank balance of only Rs.0.46 Cr as on March 31, 2023 (prov). The firm has adequate net cash accruals of Rs.3.74 Cr as on March 31, 2023 (Prov) as against long term debt repayment of Rs.1.50 Cr over the same period. However, the firm's efficient working capital management is marked by GCA days of 29 days in FY23 (Prov) as against 49 days in FY22. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that PA will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle and liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements or further elongation of working capital cycle or further stretch in liquidity.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	490.71	257.83
PAT	Rs. Cr.	2.43	0.53
PAT Margin	(%)	0.49	0.21
Total Debt/Tangible Net Worth	Times	2.81	3.62
PBDIT/Interest	Times	2.40	1.61

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>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	17.45	ACUITE B+ Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.55	ACUITE B+ Stable Assigned

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About Acuité Ratings & Research

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