

Press Release

PBI India Private Limited

September 06, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 32.75 crore
Long Term Rating	ACUITE BBB / Outlook: Negative (Reaffirmed & Outlook Revised)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on Rs. 32.75 crore bank facilities of PBI INDIA PRIVATE LIMITED (PIPL). The outlook has been revised from '**Stable**' to '**Negative**'.

The revision in the outlook is on account of concerns with respect to sharp increase of exposure to the group concern, PBI Metals Private Limited to the extent of Rs. 10.25 crores; resulting in an adjusted gearing of 2.08 times. Any further investments in the group concern will impart a negative implication towards the rating.

Jammu-based, PBI India Private Limited (PIPL) was incorporated in 1980 by Mr. A. K. Puri, Mr. Sanjay Puri and Mrs. Anjali Puri. The company runs a flour mill in Jammu and sells wheat and wheat products in Jammu & Kashmir and Punjab. PIPL has an installed capacity of ~108000 quintals per month and sells its products under the brand name "P-Mark".

Analytical Approach

Acuite has considered the standalone view of business and financial risk profiles of PBI India Private Limited.

Key Rating Drivers

Strengths

- **Extensive experience of promoters**

PIPL was incorporated in 1980 by Mr. A. K. Puri, Mr. Sanjay Puri and Mrs. Anjali Puri, who possess an experience of more than three decades in the aforementioned line of business. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. On the back of the stable and repeated orders by the key customers, the revenues have seen a compound annual growth rate (CAGR) of about 19.87 per cent over the past four years through FY2019 at Rs. 242.83 crores in FY2019.

- **Established brand and diversified product portfolio**

The company manufactures flour and flour products such as aata, bran, maida, sooji, besan and dalia and sells the same under the 'P-Mark' brand name in Jammu & Kashmir and Punjab.

- **Efficient working capital management**

PIPL's working capital is efficiently managed as reflected by its gross current asset (GCA) days of around 53 days estimated as on March 31, 2019 (Provisional). The company maintains raw material inventory of around 10-25 days and finished goods inventory of just 3 days, as the work in process cycle time is low. PIPL extends a credit period of around 20-45 days to its customers. On the other hand, the company gets 3-15 days credit from its suppliers. As a result, the reliance on working capital limits is moderate, leading to moderate utilisation of its bank lines at an average of 80 per cent over the last nine months through July 2019. While the peak utilisation is high at around 100.91 per cent during the same period.

Acuite expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company and limited credit period extended to its customers.

• **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate net worth, gearing, debt protection metrics and coverage indicators.

The net worth of PIPL is moderate, estimated at around Rs. 25.28 crore as on 31 March, 2019 (Provisional). The net worth levels have seen improvement over the last three years through FY2019 on account of moderate accretion to reserves during the same period.

The company has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.05 times as on March 31, 2018 and 0.82 times as on March 31, 2017. The leverage levels have marginally deteriorated to 1.24 times as on March 31, 2019 (Provisional). PIPL has invested in Rs. 10.25 crore in PBI Metals Private Limited, by way of preference shares, resulting in an adjusted gearing of 2.08 times. The company incurred a capex of Rs. 15.57 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period has been around Rs. 2.25 crore to support the increase in scale of operations. PIPL's moderate cash accruals to the tune of about Rs. 3.83 crore have also supported in minimizing the reliance on external debt lead to moderate gearing and debt levels of 1.24 times and Rs. 31.33 crore as on March 31, 2019. The total debt of Rs. 31.33 crore as on 31 March, 2019 (Provisional) comprises of working capital borrowings of Rs. 26.70 crore and long term borrowings of Rs. 4.63 crore. PIPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 4.51 crore to Rs. 5.70 crore, which are adequate to service its repayment obligations while supporting incremental working capital requirements.

The revenues of the company increased by around 12.30 per cent at Rs. 242.83 crore during 2018-19, while its operating margins marginally deteriorated from 2.73 per cent in FY2018 to 2.61 per cent in FY2019 (Provisional). The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 (Provisional) were moderate at 0.12 per cent and 2.28 times, respectively.

The company only caters to the domestic market and is not exposed to volatility in forex rates.

Acuite believes that the financial risk profile of the company is expected to remain moderate on account of healthy accretion to reserves. However, any further investments in the group concern may impact the financial risk profile of the company and be a key rating sensitivity factor.

Weaknesses

• **Moderate profitability**

The company has comfortable scale of operations. However, the profitability margins are moderate marked by an EBITDA margin of 2.61 per cent in FY2019 (Provisional) as against 2.73 per cent in FY2018. Further, the company operates in a highly competitive and fragmented nature of industry and faces tough competition from various organised and unorganised players which could impact the bargaining power with the customers and hence, the margins. However, the risk is mitigated to an extent on account of established track record of operations and experienced management.

• **Exposure to agro-climatic risks and susceptibility to fluctuation in raw material prices**

The food processing industry is exposed to agro-climatic risks, which might affect the availability of the raw materials in adverse weather conditions. The profit margins are susceptible to fluctuations in the prices of wheat - the main raw material which constitutes almost 90 per cent of the total cost.

Liquidity position

The company has adequate liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 3.83 crore for FY2019 (Provisional) as against maturing debt obligations of around Rs. 0.63 crore for the same period. The cash accruals of the company are estimated to remain around Rs. 4.51 crore to Rs. 6.95 crore during FY2020-22 against repayment obligations of around Rs. 0.63 crores. PIPL's working capital operations are efficient marked by gross current asset (GCA) of 53 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 1.71 crore as on 31 March 2019 (Provisional). The current ratio stood at 0.96 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on

account of moderate cash accruals against debt repayments over the medium term.

Outlook: Negative

Acuite believes that PIPL will maintain a 'Negative' outlook over the medium term due to sharp increase in the investment in the group concern to the extent of Rs. 10.25 crore, resulting in an adjusted gearing of 2.08 times. The rating may be downgraded' if there are any further investments/ loans & advances to the group concern. The outlook may be revised to 'Stable' if the promoters infuse additional funds in order to improve its adjusted gearing.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	242.83	213.06	183.41
EBITDA	Rs. Cr.	6.35	5.81	6.00
PAT	Rs. Cr.	0.51	1.14	1.69
EBITDA Margin	(%)	2.61	2.73	3.27
PAT Margin	(%)	0.21	0.54	0.92
ROCE	(%)	6.17	8.54	10.44
Total Debt/Tangible Net Worth	Times	1.24	1.05	0.82
PBDIT/Interest	Times	2.28	2.82	2.80
Total Debt/PBDIT	Times	4.72	4.14	3.15
Gross Current Assets (Days)	Days	53	67	62

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
July 06, 2018	Cash Credit	Long-Term	24.00	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long-Term	1.63	ACUITE BBB/ Stable (Reaffirmed)
	Proposed Cash Credit	Long-Term	7.12	ACUITE BBB/ Stable (Reaffirmed)
April 18, 2017	Cash Credit	Long-Term	21.25	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long-Term	2.75	ACUITE BBB/ Stable (Reaffirmed)
	Proposed Cash Credit	Long-Term	8.75	ACUITE BBB/ Stable (Assigned)
April 26, 2016	Cash Credit	Long-Term	21.75	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long-Term	2.75	ACUITE BBB/ Stable (Reaffirmed)

***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	24.00	ACUITE BBB/ Negative (Reaffirmed & outlook revised)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.63	ACUITE BBB/ Negative (Reaffirmed & outlook revised)
Stand-by Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BBB/ Negative (Reaffirmed & outlook revised)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.52	ACUITE BBB/ Negative (Reaffirmed & outlook revised)

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About Acuité Ratings & Research:

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