Press Release

Palriwal Industries Private Limited

July 01, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Long Term Bank Facilities	38.50	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	5.00	IVR A3 (IVR A Three)	Assigned
3.	Long Term/ Short Term Bank Facilities	18.50	IVR BBB-/Stable/A3 (IVR Triple B Minus with Stable Outlook/ IVR A Three)	Assigned
4.	Proposed Long term Bank Facilities	1.20	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
	Total	**63.20 (Rupees sixty three crore and twenty lakh only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Palriwal Industries Private Limited (PIPL) draw strength from its established track record of operations under an experienced management, continuous infusion of funds by the promoters, strategic location of the plant, established relationship with major customers and suppliers, comfortable order book position, improvement in revenue and favourable outlook of the user industry. The rating strengths are, however, constrained by exposure of profitability to volatility in prices of raw materials and finished goods, decline in profit margins and working capital intensive nature of business leading to moderate capital structure withmoderate debt protection metrics.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability leading to improvement in debt protection metrics on a sustained basis
- Improvement in the capital structure

- Sufficient liquidity buffer with enhancement in the existing limits or working capital limits utilisation below 75% on a sustained basis

Downward factor:

- Decline in scale of operation coupled with decline in profitability
- Moderation in the capital structure with deterioration in overall gearing to more than 2.5x and impairment in debt protection metrics
- Deterioration in liquidity position due to inability to obtain enhancement in the existing limits or high working capital intensity resulting in heavy utilisation of the existing limits.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations under experienced management**

PIPL was incorporated in 1992 as a proprietorship firm byPalriwalfamily. Hence, it has a track record of around27 years in this line of business. PIPL is promoted by Mr. Bijoy Kumar Agarwal and Mr. Kamal Kumar Palriwal, who has more than three decades of experience in the coal tar pitch (CTP) business. The day to day affairs of the company are looked after by Mr. Bijoy Kumar Agarwal, with the help of other directors Mr. Vishal Palriwal, Mr. Gaurav Palriwal and Mr. Kamal Kumar Palriwal.

- **Continuous infusion of funds by the promoters**

Over the last three years, PIPL's promoters have infused equity and unsecured loan at regular intervals to fund its incremental working capital requirement and routine capex. The promotersinfused equity of Rs.1.39 crore in FY17, Rs.1.89 crore in FY18 and Rs.2.62 crore in FY19. Moreover, as on March 31, 2019, the company has introduced unsecured loan from family worth Rs.2.80 crore, which will remain in the business and is considered as quasi equity.

- **Locational advantage**

The manufacturing facilities of PIPL are located at Ranchi, Jharkhand, where there is ample availability of raw material like coal tar. Further, the manufacturing facility of the company is well connected through road/rail. The strategic location of the plant of PIPL enables it to easily and cost effectively procure raw materials and distribute its product to the state of Jharkhand, Orissa and Uttar Pradesh.

- **Reputed clientele and longstanding relation with them**

Since its incorporation, PIPL supplies its manufactured coal tar pitch to reputedcompanies like Hindalco, Vedanta and NALCO. Hence, the company has longstanding relationship with reputed corporates. For aluminium conductor business, PIPL purchases aluminium from Hindalco, Vedanta and NALCO and supplies the end product from aluminium i.e. Aluminium conductor/cable to various EPC players, Power Grid Corporation of India Ltd (PGCIL) and state electricity transmission companies.

- **Comfortable order book position**

The company had outstanding orders of Rs.143.70 crore (including coal tar pitch order ofRs.44.2 crore) as on February 28, 2020, to be completed within next7 to 8 months ensuring revenue visibility over the near to medium term.

- **Improvement in revenue, despite decline in margins**

PIPL's total operating income grew at a CAGR of ~54% over the last three years FY17-FY19. The company witnessed steady improvement by~58% in FY18 to Rs.118croreand ~49% in FY19 on account of year over year increase in revenue from aluminium conductor business (from Rs.50.94 crore in FY17 to Rs.84.89 crore in FY18 and further Rs.134.92 crore in FY19). Despite, increase in total operating income, the EBITDA margin of PIPL declinedfrom7.98% in FY17 to 6.02% in FY18 and thereafter to 4.23% in FY19 due to higher proportion of sales being derived from lower margin aluminium conductor business along with offering competitive rates to customers to increase market share.Furthermore, in line with EBITDA margin, the PAT margin of the company also declined from 1.17% in FY18 to 0.79% in FY19.During FY20 the company has achieved a total operating income of Rs.144 crore.

- **Favourable outlook of the user industry**

The majority of the revenue of the company is generated from power transmission segment wherein aluminium conductors are used while CTP is used by aluminium industry. The aluminium industry consumes binder grade CTP for manufacturing anode blocks in aluminium smelters. The growth in aluminium demand is likely to be driven by the growth in power transmission and the automobile sector. Further, Power Transmission capacity has been increasing. India aims to reduce high electricity transmission and distribution system losses. PIPL is expecting to drive benefit from boost in power transmission sector particularly in Jharkhand.

Key Rating Weaknesses

- **Volatility in prices of raw material and finished goods**

Raw materials are the single largest cost component for PIPL (constituting about 90 to 95% of total cost of sales during FY17-FY19). The company does not have any backward integration for the major raw material, coal tar and aluminium ingot and any adverse movement in the raw material price without any corresponding movement in finished good price might affect the performance of the company. However, this risk is partly mitigated through MOU with Hindalco& NALCO, for procurement of aluminium and aluminium alloys which enables it to get discounts on bulk purchases above a certain quantity and other price benefits from them. Since, the price of Aluminium and Aluminium alloys (being the major raw material for PIPL), are highly volatile in nature the margins are susceptible to input price volatility. However, the company resorts to back to back order policy to reduce the price volatility to a certain extent for its shorter tenure contracts and includes escalation clause for longer tenure (more than 8 months) contracts.

- **Working capital intensive nature of business**

The operations of PIPL are working capital intensive. Some of the orders of the company are tender based (mainly in aluminium conductors' business) and the company needs to furnish earnest money deposits (EMD) of around 1% during the bidding process (which releases after bidding process is over) along with 2.5% of performance guarantee. Further, to reduce volatility of raw material, the company follows back to back purchase of aluminium ingot which leads to higher inventory throughout the year. Also, a substantial portion of inventory remain blocked in WIP and finished good on account of high lead time for inspection and clearance from respective authorities resulting in higher operating cycle of 112 days in FY19 as against 125 days in FY18. Average bank limit utilisation of the company remained moderate ~ 84% during the past 12-month period ended February 2020.

- **Moderate capital structure and debt protection metrics**

The capital structure of the company remained moderate despite presence of minimal long-term debts in the capital structure due to its working capital intensive nature of operations leading to higher dependence on bank borrowings. Considering subordinated unsecured loan amounting to Rs.2.80 crore as quasi equity new worth of the company stood at Rs.23.71crore as on March 31,2019. With improvement in tangible net worth coupled with accretion of profit to reserves the overall gearing of the company, improved from 2.39x as on March 31, 2018 to 1.64x as on March 31, 2019.Total indebtedness of the company as reflected by TOL/ANW stood comfortable at 2.14x as on March 31, 2019. The debt protection indicator of the company like interest coverage has improved from 1.56x in FY18 to 1.61x in FY19 backed by higher absolute EBITDA. Further, Total Debt/GCA though improved from 17.8 years in FY17 remained high at15.83 years in FY19 mainly due to lower cash accruals.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The current ratio remained comfortable at 1.36x as on March 31, 2019. The liquidity of the company is expected to remain adequate in the near to medium term marked by sufficient accruals vis-à-vis its negligible debt repayment obligations. The average working capital limit utilisation also remained moderate at ~84% during the past twelve months ended February 2020 indicating moderate liquidity buffer. The free cash and bank balance as on March 31, 2019 stood at Rs.4.38 crores.

About the Company

- PIPL was incorporated in the year 1992 by two business families, Palriwal family and Agarwal family based out of Jharkhand, Ranchi to set up a plant. The main promoters of PIPL are Mr. Bijay Kumar Agarwal and Mr. Kamal Kumar Palriwal. The company has its registered office in Kolkata. Set up in 2000, the company manufactures coal tar pitch and aluminum conductor wire.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	118.00	176.03
EBITDA	7.11	7.44
PAT	1.38	1.39
Total Debt	40.14	39.00
Tangible Net worth	17.85	23.71

For the year ended* / As On	31-03-2018	31-03-2019
EBITDA Margin (%)	6.02	4.23
PAT Margin (%)	1.17	0.79
Overall Gearing Ratio (x)	2.39	1.64

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: CARE has moved the rating to issuer non cooperating category vide its press release dated March 20,2020 due to lack of cooperation from the client and in absence of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	26.00	IVR BBB-/Stable	-	-	-
2.	Channel Finance	Long Term	12.50	IVR BBB-/ Stable Outlook	-	-	-
3.	Bank Guarantee	Long Term/ Short Term	18.50	IVR A3	-	-	-
4	Letter of Credit	Short Term	5.00	IVR A3			
5.	Proposed Cash Credit	Long Term	1.20	IVR BBB-/Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	26.00	IVR BBB-/ Stable Outlook
Long Term Bank Facilities- Channel Finance	-	-	-	12.50	IVR BBB-/ Stable Outlook
Long Term/ Short Term Bank Facilities- Bank Guarantee	-	-	-	18.50	IVR A3
Short Term Bank Facilities- Letter of Credit	-	-	-	5.00	IVR A3
Proposed Long Term Bank	-	-	-	1.20	IVR BBB-/Stable Outlook

Facilities- Cash Credit					
Total				**63.20**	