Press Release

Primacy Industries Private Limited

August 16, 2023 (Revised)

Ratings

Instrument / Facility	**Amount (Rs. Crore)**	**Ratings**	**Rating Action**	**Complexity Indicator (Simple/ Complex/ Highly complex)**
Long Term Bank Facilities	82.38	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total Bank facilities	82.38	(Rupees eighty-two crore thirty-eight lakh only)		
Optionally Convertible Debentures	28.80	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Compulsory Convertible Debentures	5.33	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total Debt Instruments	34.13	(Rupees Thirty-four crore and Thirteen lakh only)		
Total Rated Amount	**116.51**	**Rupees One hundred and sixteen crores and fifty-one lakhs only.**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities and debt instruments of Primacy Industries Private Limited derive strength from extensive experience of the promoters, diversified product portfolio and geographic presence along with reputed clientele and improved financial risk profile post restructuring. However, the rating strengths are constrained due to competitive nature of industry & volatility in prices, exposure to foreign exchange currency fluctuations risk, sticky debtors from its subsidiary MVP Group International Inc. and weak debt protection metrics.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the revenue & EBITDA margin while improving the debt protection metrics.
- Timely repayment of the debt obligations as per the restructuring plan approved by the Bankers.
- Improvement of working capital cycle.

Downward Factors

- Any significant decline in revenue and/or EBITDA margin leading to decline in debt protection metrics.
- Delay in mobilisation of funds by promoters by way of equity event in another group company to provide exit to CCD investors.
- Delay in Conversion of CCD (Compulsory Convertible Debenture) into equity by the PE investor.
- Any significant write-off of debtors leading to decline in profitability.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters:

Primacy Industries Private Limited is part of Manipal Group and is closely held by the Pai family. The promoters of the company have an experience of over decades in the industry and have strong understanding of the market dynamics which has helped them to establish good business relationships with renowned retailers in international as well as domestic markets. The company is well supported by second line of management. The extensive experience of the promoter and emerging presence of the company in the said industries have helped the company to maintain regular flow of revenues.

Diversified product portfolio and geographic presence along with reputed clientele

Company benefits from the well-equipped assembly line of scented candles providing synergy in production of varied products. The product portfolio includes various types of candles, Air care, personal care, hygiene, home care products. Exports accounted for 55% to 60% of the company's revenues in 2021-22 and 2022-23. Of the total exports, 35% to 40% of the exports are to USA, 30% exports are to Europe, 20% exports are to Australia, and the balance to other countries. The international clientele includes various international retailers like Walmart, Dollar General, K-Mart, Bed Bath & Beyond. The domestic clientele includes Metro Cash and Carry, SPAR, Future Group, Walmart India, Grofers, Aditya Birla, Dabur, Godrej, Reliance and Himalaya. The company has a presence in more than 200,000 outlets pan India and globally.

Improved financial risk profile post restructuring

The company has posted healthy revenue growth during FY23 (Provisional) as compared to FY22, with TOI increasing by 18% on a year-on-year basis on account of various management initiatives undertaken to increase the revenue. The operating margin improved during FY23 (Prov.) to 6.51% as against operating losses at -2.96% in FY22. In FY23, the PAT margins recovered and stood at 2.62% as against -84.77% in FY22 on account of improved operating profit coupled with lower finance costs. The overall gearing ratio has improved over the last 4 years from 0.93x in FY20 to 0.57x in FY23 led by restructuring of long-term debt and improved TNW. The company does not have any working capital facilities as on date. The Total outside liabilities to Tangible Net Worth of the Company also improved from 1.77x as at FY20 to 1.30x as at FY23 Prov.

Key Rating Weaknesses:

Competitive nature of industry& volatility in prices

Home fragrance items is characterized by highly competitive, fragmented and cyclical business, having a large number of unorganized players in the industry resulting in intense competition. The company derives bulk of its turnover from the US and Europe, and thus, remains exposed to region-specific events. Also, any change in consumer preferences and adversities in the economy impacting the supply chain may impact the cashflows of business.

Exposure to foreign exchange currency fluctuations risk

With foremost portion of revenue coming from exports (~59% in FY23 Prov.), company's profitability remains exposed to foreign exchange currency fluctuations. In absence of any working Capital bank facilities, the receivables become susceptible to any sharp fluctuations in forex rates. The net unhedged receivables stood at USD 23.48 million as of March 31, 2023 and are majorly from its subsidiary MVP Group International Inc.

Sticky Debtors from its Subsidiary MVP Group International Inc.

Primacy Industries has long outstanding debtors from its subsidiary company namely, MVP Group International Inc. As of March 31st, 2023, the total debtors outstanding from MVP Group International Inc. stood at Rs. 155 crores of which Rs. 80 crore was outstanding for more than 365 days. We understand from the company that the company expects recovery of 1/3rd of outstanding receivables in the next 6 months and balance 2/3rd over the next 12-18 months. Further, the company is also considering monetizing the assets in MVP Group International Inc. towards repayment of the sticky debtors.

Weak debt protection metrics

The interest coverage ratio improved from -0.45x in FY22 to 2.27x in FY23 (Prov.) However, the debt service coverage ratio stood below unity as FY23 (Prov.) however the same is expected to be improve going forward.

Working capital intensive operations

For past three fiscals, the gross current assets have stood elevated at 350 to 250 days mainly due to the large working capital requirements resulting from higher debtor levels. The highest debtor i.e., MVP Group Intl Inc. (subsidiary co.) accounts for 73% of the total debtors outstanding. The company also holds raw material inventory of 60 to 80 days as per business requirements. The creditor remained elevated during the stressed period resulting in high creditor days. Working capital management whilst long pending debtors and creditors shall remain a key monitorable.

Analytical Approach: Standalone Approach

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Rating Outlook

Default Recognition Policy

Liquidity – Adequate

The liquidity is considered to be adequate as reflected from its expected internal cash accruals in FY24 to meet its debt obligations and to meet its capex requirements and the same is expected to increase further with an increase in scale of operations. Further, the company maintains moderate cash and bank balance to meet its liquidity requirements and has unencumbered cash and bank balance of Rs. 2.09 crore as of March 31, 2023.

About the Company:

Primacy Industries Private Limited was incorporated in 2004. The company is engaged in production of perfumed designer candles such as scented decorative wax candles, aerosols, personal care and home care products of different varieties. It has four manufacturing plants located in Mangalore and Gujarat. PIPL's operations are diversified across location with presence in India and international markets.

Financials (Standalone):

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Provisional)
Total Operating Income	353.79	418.29
EBITDA	-10.47	27.24
PAT	-311.35	11.20
Total Debt	160.75	142.63
Tangible Net worth	203.83	249.08
EBITDA Margin (%)	-2.96	6.51
PAT Margin (%)	-84.77	2.62
Overall Gearing Ratio (times)	0.79	0.57

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term loans	Long-term	51.17	IVR BBB-/ Stable Outlook	-	-	-
2.	FITLs	Long-term	4.20	IVR BBB-/ Stable Outlook	-	-	-
3.	WCTL	Long-term	27.01	IVR BBB-/ Stable Outlook	-	-	-
4.	Optionally Convertible Debenture (OCD)	Long-term	28.80	IVR BBB-/ Stable Outlook	-	-	-
5.	Compulsorily Convertible Debentures (CCDs)	Long-term	5.33	IVR BBB-/ Stable Outlook	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

(The link to original PR dated August 16, 2023 is available here)
https://www.infomerics.com/admin/uploads/pr-primacy-industries-16aug23.pdf

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term loan	-	-	March 2027	28.85	IVR BBB-/ Stable Outlook
Term loan	-	-	March 2027	13.46	IVR BBB-/ Stable Outlook
Term loan	-	-	March 2024	8.86	IVR BBB-/ Stable Outlook
FITL	-	-	March 2024	0.45	IVR BBB-/ Stable Outlook
FITL	-	-	March 2024	0.22	IVR BBB-/ Stable Outlook
FITL	-	-	March 2024	2.32	IVR BBB-/ Stable Outlook
FITL	-	-	March 2024	1.21	IVR BBB-/ Stable Outlook

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
WCTL	-	-	March 2027	27.01	IVR BBB-/ Stable Outlook
Optionally Convertible Debenture (OCD)	-	-	March 2028	28.80	IVR BBB-/ Stable Outlook
Compulsorily Convertible Debentures (CCDs)	-	-	September 2023	5.33	IVR BBB-/ Stable Outlook

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-primacy-aug23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Name of the Instrument		Detailed Explanation
Financial Covenant		
1	Debt/ EBITDA	Financial Year 2022-2023 and Financial Year 2023-2024 maximum up to 3.0. Financial Year 2024-2025 onwards maximum up to 2.0x.
2	Debt/TNW	Financial Year 2022-2023 onwards maximum up to 0.50x
3	DSCR	Minimum level of 1.3x [incl. Facility OCD scheduled repayments]
4	Current Ratio	Minimum level of 1.3x each year
Non-financial Covenant		
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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