Press Release

Paragon Apparel Private Limited

November 09, 2023

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	30.42	IVR BB/ Stable (IVR Double B with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	16.00	IVR A4 (IVR A Four)	Assigned	Simple
Total	**46.42 (INR forty-six crore forty two lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Paragon Apparel Private Limited (PAPL) derives strength from the experienced promoters with long tenure in textile industry, and improvement in operating performance in FY23; decline witnessed in H1FY24 (provisional). However, these ratings strengths are constrained by the facts that PAPL has a leveraged capital structure with moderate gearing ratios, presence in a highly competitive industry, and susceptibility of profit margins to fluctuation in raw material prices.

Rating Sensitivities

Upward Factors

- Significant growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in gearing on a sustained basis.
- Sustained improvement in working capital cycle, improving cash flows and liquidity of the company.

Downward Factors

- Moderation in liquidity position with deterioration in operating cycle
- Deterioration in capital structure and coverage indicators

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters with long tenure in textile industry

PAPL was promoted by Mr. Roshan Baid (Managing Director) who has experience of more than two decades in the garment manufacturing industry. He looks after the overall business operations of the company. He is ably supported by Mr. Tarun Baid and Mr Sidharth Baid, each of whom have experience of more than two decades in the garment manufacturing industry.

Strong client base

The experiences of the promoters have helped the Company to develop and maintain a healthy and longstanding relationship with the customers such as Reliance Retail Limited, Skechers USA, Myntra, Adidas and Benetton. The decade-long association with these players strongly supports market position and hence, business risk profile.

Improvement in operating performance in FY23; decline witnessed in H1FY24 (provisional)

The company has reported a Total Operating Income of Rs. 248.91 crore during FY23 which increased by 2.76% from Rs. 242.27 crore during FY22. The EBITDA improved to Rs 13.03 crore during FY23 as against Rs. 12.15 crore during FY22. The PAT of the company also improved from Rs 0.91 crore during FY22 to Rs 1.12 crore during FY23. The GCA was Rs 3.44 crore during FY23 against Rs 3.11 crore during FY22. However, the Company's performance in recent results has witnessed a decline of 47.10% in Total Operating Income from INR 142.09 Cr during 6MFY23 to INR 75.17 Cr during 6MFY24. Similarly, the EBITDA and PAT has declined from INR 7.56 Cr during 6MFY23 to INR 4.52 Cr during 6MFY24 and from INR 0.64 Cr during 6MFY23 to INR 0.38 Cr during 6MFY24 respectively.

Key Rating Weaknesses

Relatively moderate scale of current operations

The company witnessed substantial growth in the topline with CAGR 13% during the past three years. However, despite the stated improvement, the scale remains moderate with revenue of Rs. 248.91 crore during FY2023. The increase in the topline will be a key rating determinant going forward.

Aggressive capital structure with moderate gearing ratios

The capital structure of the Company is leveraged – overall adjusted gearing ratios (considering bills discounting) as on 31st March 2022 and 31st March 2023 were 3.73x and 4.20x respectively. TOL/TNW as on 31st March 2022 and 31st March 2023 were 6.49x and 6.41x respectively. The leveraged capital structure puts pressure on the DSCR and Interest coverage ratio particularly during economic downturns when cash flows from operations deteriorate.

Working capital intensive nature of operations

The company's operations are working capital intensive in nature as reflected by its Operating cycle (days) of around 145 days as on March 31, 2023, as against 120 days in FY22. The company maintains an average inventory of around three months for smooth running of operations. The average collection period (days) also remains high at 131 days in FY23. The collection days are higher as a portion of the payment is withheld for some duration after the execution of the orders. This has led to higher reliance on debt borrowings.

Presence in a highly competitive industry

The textile industry in India is highly fragmented with presence of many established players in the market, which the Company has to compete with. Further, there are several unorganised players in the industry. As a result, it has to work with very reasonable operating margins in order to remain competitive in the market.

Susceptibility of profit margins to fluctuation in raw material prices

The key raw material required for manufacturing of garments is yarn which is highly volatile and accordingly the profits are exposed to volatility in raw material prices. The cost of raw materials comprises of a major portion of cost of goods sold and thus price volatility would expose the company to a higher risk. However, the company generally tries to pass on the increase in raw material prices to its customers with a time lag of around two-three months in line with other industry players.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

[Criteria for assigning rating outlook]

<u>Liquidity</u> – Adequate

The Company had a moderate current ratio of 1.15x on March 31, 2023 and this ratio is remaining between 1.15x and 1.30x during March 31, 2024 to March 31, 2026. The GCAs of each of the years between FY24 and FY26 comfortably covers the debt repayments due in the respective years. The Operating Cycle of the Company was elongated at 145 days in FY23 and is expected to remain between 107 days and 132 days between FY24 and FY26. Reliance on fund based working capital limits had been high at around 93.11% for the 12 months ended October 2023 providing very low cushion. However, no debt-funded capex is planned between FY24 and FY26 which provides some comfort to the Company.

<u>About the Company</u>

Paragon Apparels Private Limited was incorporated on 01-02-1995 by Sri Roshan Baid to engage in garment manufacturing business.

Roshan Baid has an experience of more than 30 years in manufacturing, trading & export of various garment products, Tarun Baid and Sidharth Baid has 22 years of experience in similar lines of businesses.

The Company is a MSME unit. Since inception the company is manufacturing readymade garments specifically sportswear. The Company sells its products directly to reputed brands such as Reliance Retail, Aditya Birla Group, Jack & Jones, Bata, HRX, Vishal Mega Mart and many others.

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

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	242.27	248.91
EBIDTA	12.15	13.03
PAT	0.91	1.12
Total Debt	85.43	100.67
Tangible Net Worth	22.89	23.97
EBDITA Margin (%)	5.02	5.23
PAT Margin (%)	0.37	0.45
Overall Gearing Ratio (x)	3.73	4.20

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

CRISIL through its press release dated July 26, 2023 migrated PAPL's rating under 'Issuer not Cooperating' category on account of inadequate information to carry out the review.

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (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	10.42	IVR BB/ Stable	-	-	-
2.	Cash Credit	Long Term	20.00	IVR BB/ Stable	-	-	-
3.	Letter of Credit	Short Term	2.00	IVR A4	-	-	-
4.	Pre Shipment Credit	Short Term	14.00	IVR A4			

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About Infomerics:

Press Release

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.

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 1	-	-	Jan 2027	2.22	IVR BB/ Stable
Term Loan 2	-	-	Mar 2026	0.73	IVR BB/ Stable
Term Loan 3	-	-	Jan 2025	1.56	IVR BB/ Stable
Term Loan 4	-	-	May 2025	0.78	IVR BB/ Stable
Term Loan 5	-	-	May 2025	0.66	IVR BB/ Stable
Term Loan 6	-	-	May 2027	3.75	IVR BB/ Stable
Term Loan 7	-	-	Apr 2027	0.72	IVR BB/ Stable
Cash Credit	-	-	-	20.00	IVR BB/ Stable
Letter of Credit	-	-	-	2.00	IVR A4
Pre Shipment Credit	-	-	-	14.00	IVR A4

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Paragon-nov23.pdf

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

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