Press Release

Pelicans Automotive & Promotional Products Pvt Ltd

August 25, 2020

Ratings

Facility*	Amount (Rs. Crore)	Ratings	Rating Action
Fund Based Long Term Bank Facilities – Cash Credit	1.00	IVR BB+; Stable (IVR Double B Plus with Stable Outlook)	Assigned
Non Fund Based - Long Term Bank Facilities – Forward Contracts	29.00	IVR BB+; Stable (IVR Double B Plus with Stable Outlook)	Assigned
Total	**30.00**		

**Details of Facilities are in Annexure 1*

Detailed Rationale

The ratings assigned to the bank facilities of Pelicans Automotive & Promotional Products Pvt Ltd ("Pelicans") takes into account its experienced promoters with diversified portfolio, comfortable financial risk profile and healthy order book position from reputed clientele. These rating strengths are partially offset by small scale of operations of the business with dependency of the company revenue on its group company's performance, susceptibility to foreign currency price fluctuation risk and its elongated working capital cycle.

Key Rating Sensitivities

Upward factors

- Growth in operating income with improvement in margins leading to improvement in cash accruals on a sustained basis
- Approval of the new product line of Tyre bag for the same OEM Clients, which will significantly boost their revenues
- Improvement in the operating cycle leading to improvement in liquidity and improvement in average working capital utilisation to below 95% on a sustained basis

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity on a sustained basis
- Deterioration in the capital structure with overall gearing to more than 2x and/or deterioration in debt protection metrics

- Any adverse government regulations.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established promoters& diversified portfolio**

The Company was established in 2006 by Mr. Aslam Merchant and Mr. Prashant Kandekar as a design & manufacturing of leather and man-made fabric accessories for supplying to automotive and the luxury market. The promoters have extensive experience in this industry. The company is also diversifying its product portfolio by started streamlining order for tyre bag and it is expected to generate substantial revenue from these segments.

- **Reputed clientele**

PML has a strong clientele in the automotive sector in Europe comprising reputed and established names. PML procures orders from various Europe based car manufacturers like Volkswagen, Bayerische Motoren Werke AG (BMW), Mercedes-Benz (a division of Daimler AG), Bentley Motors Limited and Aston Martin Lagonda Limited, JLR etc. through tenders floated by them and in turn forward the orders to Pelican in India. Consequently, Pelican has to comply with all the required standards as mandated by the OEMS.

- **Healthy Order book indicating near to medium term revenue visibility**

Pelican has an order book of ~Rs.380 crore (6 times of its FY20 operating revenue) which includes the order of only pouches. Other accessories orders are not added in this order book which will again increase the revenue for the company. The order book is to be completed within next five years indicating a healthy medium term revenue visibility.

- **Comfortable financial risk profile**

The company has a comfortable risk profile marked by its conservative capital structure with minimal debt obligations over the past three years along with a satisfactory net worth base of Rs.44.60 crore as on March 31,2020 (Prov.). Driven by its low debt exposure, and healthy profitability the debt protection metrics also remained healthy for the company. Total indebtedness of the company also remained comfortable marked by TOL/TNW at 0.18x as on March 31, 2020 (Prov.) [0.26x as on March 31, 2019].

Key Rating Weakness

- **Small scale of operations**

The scale of operations of the company remained small despite its long track record of operations. Moreover, the company has witnessed moderation in its total operating income in FY19 due to Brexit related uncertainties in the European market along with subdued automobile industry scenario amidst economic downturn. During FY20, the operating income further contracted by ~27% to ~Rs.60 crore due to Brexit related uncertainties along with recent COVID pandemic impact in the second half of the year.

- **Dependency on export policies and exposure to foreign currency exchange fluctuation risk**

The operation of Pelican is sensitive to the export incentives policies of the Government of India as the entire revenue of the company is dependent on the export. This, in turn, makes the revenue susceptible to fluctuations in foreign currency exchange rates. However, as the export is much higher than import of the company, it enjoys a natural hedge for its foreign currency exposure. Also the currency risk is mitigated by Long Term Forward Contract by the company. Any change in country regulations and politico-economies will directly affect the revenue and profitability.

- **Dependence on automobile sector and on group company's performance**

Being a manufacturing arm of its UK based group company, PML with about 95-98% sales to PML, the performance of Pelican is highly susceptible to the performance of PML. Driven by political headwinds owing to Brexit in UK the operating income of PML was impacted during FY19 and FY20 which in turn impacted the revenue of Pelican. Further, the most od revenue of the company is from automobile sector which is highly cyclical in nature and prone to economic movement to a large extent. Hence, the fortune of the company is largely linked to the movement of the global automobile sector.

- **Elongated operating cycle**

The operation of Pelican is working capital intensive due to its high inventory holding requirements and more than a month average collection period. The operation cycle remained around 109 days in FY20 (Prov.).

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

Pelican has generated a cash accrual of Rs.8.46Crore in FY19 and Rs.7.15 crore in FY20. (Prov.) The company has no debt repayment obligations in FY21 and in FY22 and expecting to generate a gross cash accrual in the range of Rs.7-8 crore during the aforesaid period. The company has not availed any of the COVID emergency credit line. The current ratio of the company is at 4.11x as on March 31, 2020 (Prov.)

About the Company

Incorporated on June 12, 2006, Nasik based Pelicans Automotive & Promotional Products Private Limited (Pelican) is engaged in manufacturing and export of customised PVC (polyvinyl chloride) and PU (polyurethane) fabricated products. It has five manufacturing plants located in Nasik, India comprising of 120,000 Sq. Ft of manufacturing area. Pelican is a 100% Export Oriented Unit and is operating as a manufacturing arm of its UK based group company, Pelicans Manufacturing Co. Limited (PML).

The company is promoted by Mr. Aslam Merchant. He is also Chairman and CEO of the Group. The day-to-day operation of the company is managed by Ms. Salma Merchant Rahmathulla, Director and Mr. Prashant Kandekar, Managing Director. The Company has been accredited with IATF 16949:2016 and ISO 9001:2015 certification.

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

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	82.4	60.1
EBITDA	6.07	4.79
PAT	5.36	4.15
Tangible Net worth	40.4	44.6
EBITDA Margin (%)	7.36	7.97
PAT Margin (%)	6.15	6.51
Overall Gearing Ratio (x)	0.01	0.00

As per Infomerics Standards

Status of non-cooperation with previous CRA: Brickwork Rating vide its press release, has placed the rating in Issuer Not co-operating category as on June 29, 2020 due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of 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	1.00	IVR BB+/stable Outlook (IVR Double B Plus with Stable Outlook)	NA	NA	NA
2.	Forward Contracts		29.00		NA	NA	NA

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

ANNEXURE I

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	-	-	-	1.00)	IVR BB+;Stable
Long Term Bank Facilities – Forward Contracts	-	-	-	29.00	IVR BB+;Stable
Total				**30.00**	