

Parry Enterprises India Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	66.41	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Total Facilities	66.41 (Rupees Sixty Six crore and Forty One lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Parry Enterprises India Limited (PEIL) continues to derive strength from the strong promoter group (the Murugappa group), experienced management team, well-established operations of the company supported by the strong brand image of 'Parry', its diversified and stable revenue stream, nationwide distribution network and its leadership position in the domestic extruded polymer net industry.

The rating is, however, constrained by relatively low profit margins due to the trading nature of business, volatility in the price of raw materials, working capital intensive nature of operations and competition from the unorganized segment.

Going forward, the ability of the company to increase the size of operations without any adverse change in the capital structure and improve profitability is the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong Promoter Group and highly experienced management team: PEIL is promoted by South India-based Murugappa Group. Three investment companies of the promoter group hold 99.83% of equity stake in PEIL. Murugappa Group, headquartered in Chennai, is a Rs.300 billion (as on March 31, 2017) conglomerate with interests in engineering, abrasives, finance, general insurance, fertilizers, farm inputs, sugar, bio-products, nutraceuticals, cycles and plantations. It has 28 limited companies under its umbrella, with manufacturing facilities spread across 13 states in India. Some of the key companies in the group include Carborundum Universal Limited, Tube Investments of India Limited, Coromandel International Limited and Cholamandalam Investment and Finance Company (rated 'CARE AA+;Stable/ CARE AA; Stable/ CARE A1+').

PEIL is part of Murugappa group and managed by Mr M A M Arunachalam who is a fourth generation member of the Murugappa family. The company has appointed Mr Ramesh K B Menon as Chairman. He was the Director-HR of Murugappa Group from July, 2013.

Strong brand image of 'Parry': The Company sells a range of food ingredients such as cocoa powder, citric acid, acetic acid, skimmed milk powder, gluten etc. under GMD division. These food ingredients find extensive application in products like biscuits, bakery, dairy, confectionery, pharmaceuticals, beverages, processed foods etc. PEIL sells all these products under the brands 'Parry' and 'Delite'. Both these brands are well identified and accepted by institutional customers who are the major customers of GMD. Moreover, 'Parry' is a well-known brand name which is trusted for its quality over the past two decades.

Diversified revenue stream: PEIL has a diversified stream of revenue with trading division (GMD) contributing to 55% of the total income and Tuflex division contributing to 41% of the total income for FY17 as against 51% and 44% respectively in FY16. Rest of the income generated from Travels division. The Tuflex division manufactures polymer meshes, insect/mosquito nets, sericulture nets and fencing materials which cater to various industries like agriculture, construction etc. GMD division of PEIL is engaged in the trading of food intermediates like acetic acid, citric acid, cocoa powder, skimmed milk powder and packaged drinking water. The products and services offered under Travels include Air Ticketing, Car Rentals, Hotel Bookings, Forex and Group Tours.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Market leader in the domestic extruded polymer nets industry: PEIL is the market leader in terms of sales in the domestic extruded polymer nets. The Company also has its own R&D, where products are developed in-house to cater to the dynamically changing market. PEIL manufactures knitted products which are used in a variety of applications in the agriculture industry like agro shade, tea withering, green house etc. These products are sold under the brand name 'Rakshak'. Being the market leader in both extruded polymer nets and in knitted products, PEIL commands marginal premium price in comparison with its competitors.

Key Rating Weaknesses

Low profit margin on account of the trading nature of GMD and volatility in the price of raw materials in Tuflex: Owing to the trading nature of operations under the GMD division, PEIL's profit margin remains relatively low. During FY17, higher commodity cost with fluctuating rupee has brought down the profitability.

Profit margin from Tuflex division remained in the range of 4-8% in the past four years ended March 31, 2017, primarily due to volatility in the prices of raw materials. The major raw materials used in the manufacture of polymer nets are Low Density Polythene and High Density Polythene (LDPE/HDPE) which are derivatives of crude oil. Hence, the prices of raw materials are intertwined with the global crude oil price movements.

During FY17, PEIL registered PBILDT and PAT of Rs.8.1 Crore and Rs.3.0 Crore on total operating income of Rs.160 Crore as against PBILDT and PAT of Rs.9.1 Crore and Rs.4.0 Crore on total operating income of Rs.134 Crore during FY16.

Working Capital Intensive Nature of Operations: The nature of the business undertaken by PEIL is working capital intensive given the trading nature of operations. The company imports products like cocoa powder, citric acid for the GMD division. Since the raw material requirements for Tuflex division is met locally, the inventory for this division is minimal. The inventory is maintained for around 2 months, while the collection period is high at 70-80 days. In order to fund the working capital requirement, the company resorts to bank borrowings. The overall gearing has increased moderately to 1.59x as on 31st March 2017 as against 1.10x as on 31st March 2016 due to increase in working capital borrowings. Further, the company is setting up a new plant in Baroda of capacity 1000 MTPA. The capex of around Rs.60 crore is expected to be funded through equity infusion of Rs.10 crore and rest through term loans and internal accruals. Equity infusion of Rs.5 crore has come in from promoter during December 2017 for the same.

High competition from the unorganized players: The presence of many unorganized players and the fragmented nature of the food ingredients industry pose a challenge to PEIL. However, with the established brand name of 'Parry' & 'Delite' and with the presence of a nation-wide distribution network, PEIL has been able to increase its presence in the trading segment. Under the Tuflex division, "Rakshak" brand is well identified and recognized by its customers.

Analytical approach: Standalone

Applicable Criteria

[Rating Methodology-Manufacturing Companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios \(Non-Financial Sector\)](#)

[CARE's methodology for Wholesale Trading](#)

[Factoring Linkages in Ratings](#)

About the Company

PEIL is promoted by the Chennai-based Murugappa group. PEIL was originally incorporated under the name of "Parry Engineering & Exports Limited" and was later renamed to "Murugappa Parry Limited" in 1991 and to PEIL in 2005. PEIL has three divisions, namely (i) Tuflex division engaged in the manufacture of polymer nets, knitted products; (ii) General Marketing Division (GMD) engaged in the processing of packaged drinking water, trading of a wide range of food ingredients & chemical intermediates under the brand name of 'Parry' & 'Delite' and (iii) Travel division engaged in various services like air ticketing, car rentals, hotel bookings, Forex, etc.

During FY17, PEIL reported a profit after tax of Rs.3 crore on a total operating income of Rs.160 crore as against a profit of Rs.4 crore on a total operating income of Rs.134 crore during FY16. During H1FY18, PEIL reported a PAT of Rs.2 crore on a total operating income of Rs.74 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	134	160
PBILDT	9	8
PAT	4	3
Overall gearing (times)	1.10	1.59
Interest coverage (times)	3.05	2.68

A: Audited; NM - Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Jan 2027	4.41	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	62.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	4.41	CARE A-; Stable	-	1)CARE A-; Stable (12-Jan-17)	1)CARE A- (14-Mar-16) 2)CARE A- (01-Sep-15)	1)CARE BBB+ (26-Dec-14) 2)CARE BBB+ (16-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	62.00	CARE A-; Stable	-	1)CARE A-; Stable (12-Jan-17)	1)CARE A- (14-Mar-16) 2)CARE A- (01-Sep-15)	1)CARE BBB+ (26-Dec-14) 2)CARE BBB+ (16-Apr-14)
3.	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (12-Jan-17)	1)CARE A2+ (01-Sep-15)	1)CARE A2 (26-Dec-14)

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