

Paramount Cosmetics (India) Limited

January 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	17.12	CARE B; Stable (Single B; Outlook: Stable)	Assigned
Short Term Bank Facilities	0.88	CARE A4 (A Four)	Assigned
Total Bank Facilities	18.00 (Rs. Eighteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Paramount Cosmetics (India) Limited is tempered by modest scale of operations, low cash accruals against debt servicing obligations, thin profitability margin, stretched working capital cycle and intense competition from large number of unorganised players. However, the rating derives strength from the long vintage of over 3 decades of the company and established brand presence under 'Shilpa' brand name in the cosmetics industry. Furthermore, the rating derive strength from its experienced promoters being pioneers in Bindi segment and has gained market repute and brand acceptance in the Bindi segment.

Rating Sensitivities

Positive Factors (Factors that could lead to positive rating action/upgrade)

- Ability of the company to achieve TOI of Rs.30.00 crore and reduce the inventory holding to less than 240 days
- Achieve DSCR above unity

Negative Factors (Factors that could lead to negative rating action/downgrade)

- Increase in inventory holding beyond 400 day and PBILDT less than 16%.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

The TOI of the company has been impacted post GST implementation due to the conscious decision taken by the management to cater only to GST compliant segment. Though the scale of operations have been improving over the years, the scale of operations is yet to reach pre GST levels. Further, due to impact of Covid pandemic, the sales during lockdown is lost and the company has achieved Rs. 9.82 crore till 8MFY21.

Moderate debt coverage metrics

Though the company is operating at good PBIDT margin of 16.27%, PAT margins are negative due to higher interest expense and depreciation. Total Debt/GCA is high at 16.77x as on March 31, 2020. The company has large debt comprising of Rs.11 Cr CC which doesn't commensurate with TOI. The company has requested the bank to carve out Rs.6 Crore from CC into WCTL which is under consideration as per banker interaction, the DCSR is below unity and shortfall in debt servicing has been supported through unsecured loans from related parties.

Stretched operating cycle

The operating cycle is stretched to 415 days attributed to high finish goods inventory holding of 395 days. The company has the practice of holding the finish goods inventory at higher levels because the major product Bindi has to be made available to end users at the stores at all point of times. The end users will easily switch over to other brands if the product is not available. The company makes payment in 50- 60 days to its creditors and collection period is around 65-70 days.

Highly fragmented industry with intense competition from large number of players

PCIL faces stiff competition in the business from large number of unorganised players in the market with duplicity of products. High level of competition calls for higher advertisement and sales promotion expenditure. Further, traditional cosmetics market remains highly fragmented with widespread use of unbranded and homemade products in rural market wherein small and medium manufacturers also a competition to established player.

Key Rating Strengths

Experienced management and long track record of operations

PCIL was incorporated in 1985 and managed by Mr. Hiitesh Topiwaalla who has a rich experience of over three decades in the cosmetics industry and is currently holding the position of chairman. All the directors of the company have experience of

more than two decades in the similar line of business. PCIL has a long track record of more than three decades in the beauty and personal care industry which has helped in establishing a strong marketing network with a proven track record and an established brand name. The promoters are in the same line of business for over 3 decades. The company claims to be the market leader and the only organised player in Bindi segment which is largely dominated by unorganised players.

Established Brand presence

The flagship bindi brand 'Shilpa' is a house hold name in bindi segment and has been in the market for over 2 decades. The products of the company under the Brand name "Shilpa" are enjoying good brand equity and market repute in the Indian traditional cosmetic range of products and are well accepted by the market and customers. The company is also dealing in other brands namely Instinct, Kromme, Sunspot.

Liquidity: Stretched

Stretched liquidity marked by tightly matched accruals to repayment obligations, 92% utilised bank limits during last 12 months and modest cash balance of Rs. 0.63 crore as on September 30, 2020. Further, the company had availed moratorium on its debt obligations for the period March 01, 2020 to August 31, 2020. However, the current ratio stood above unity at 1.07 as on March 31, 2020.

Moratorium: The Company has availed moratorium on its bank facilities from March 2020 to August 2020.

Analytical approach: Standalone

Applicable criteria:

[Definition of Default](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

About the Company

Paramount Cosmetics (India) Limited, the flagship company of Paramount group was incorporated in 1985 by Mr B D Topiwala. PCIL with existence of over more than 3 decades, has diversified itself from being a single product to a multi-product and multi brand company. The company is engaged in manufacturing of beauty and personal care products like bindi, kumkum, kajal and deodorants etc. The company is well known for its flagship brand **Shilpa** bindis along with various other brands **Sunspot** (Sticker bindi's and Liquid kumkum), **Kromme** (Instant eye shadow applicator) and **Instinct** (men's Deodorants) among others.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total operating income	21.91	24.20
PBILDT	4.42	3.94
PAT	-0.13	-0.12
Overall gearing (times)	2.28	1.95
Interest coverage (times)	1.77	1.75

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	March 2022	2.76	CARE B; Stable
Fund-based - LT-Working capital Term Loan	-	-	June 2024	2.69	CARE B; Stable
Fund-based - LT-Cash Credit	-	-	-	11.00	CARE B; Stable
Non-fund-based - ST-ILC/FLC	-	-	-	0.88	CARE A4
Fund-based - LT-Proposed fund based limits	-	-	-	0.67	CARE B; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2.76	CARE B; Stable	-	-	-	-
2.	Fund-based - LT-Working capital Term Loan	LT	2.69	CARE B; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	11.00	CARE B; Stable	-	-	-	-
4.	Non-fund-based - ST-ILC/FLC	ST	0.88	CARE A4	-	-	-	-
5.	Fund-based - LT-Proposed fund based limits	LT	0.67	CARE B; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities:

	Detailed explanation
A. Financial covenants	
Lender	1.TOL/TNW >3.50
	2. Current Ratio < 1.10
	3. Interest Coverage < 1.50
B. Non-financial covenants	
Lender	Routing of 80% turnover through Bank

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Proposed fund based limits	Simple
3.	Fund-based –LT- Term Loan	Simple
4.	Fund-based - LT-Working capital Term Loan	Simple
5.	Non-fund-based - ST-ILC/FLC	Simple

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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