Paragon Polymers Private Limited

January 06, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	31.34	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
Long Term / Short Term Bank Facilities	198.00 (Enhanced from 181.00)	**CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)**	**Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)**
Short Term Bank Facilities	20.00 (Reduced from 37.00)	**CARE A2+ (A Two Plus)**	**Revised from CARE A2 (A Two)**
Total Bank Facilities	**249.34 (Rs. Two Hundred Forty-Nine Crore and Thirty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Paragon Polymer Products Private Limited (Paragon) factor in the improvement in profitability levels during FY20 and H1FY21 translating into strong cash accruals resulting in comfortable liquidity position and capital structure. After weak performance in Q1FY21, there has been significant improvement in scale of operations in Q2FY21. The company has also strengthened its corporate governance practices including appointment of an Audit committee and external audit firm to review internal control framework, Standard Operating Procedures and suggest necessary changes. CARE takes note of debt funded capex plans of the company to expand its capacity but capital structure of Paragon is estimated to remain satisfactory in near to medium term. The ratings continue to derive strength from the vast experience of the promoters & long operational track record of Paragon group, its established brand presence with a strong market position in the Indian non leather footwear industry, diverse product portfolio with company entering into leather segment recently & geographically widespread distribution network. These ratings strengths are partially offset by the working capital intensive nature of operations, vulnerability of profitability levels to volatility in raw material prices and highly competitive nature of the footwear industry.

Rating Sensitivities

Positive Factors- Factors that can lead to positive rating action/upgrade

Improvement in sales to more than Rs. 1800 crore along with sustained improvement in PBDIT margin to more than 10% while maintaining overall gearing less than 1x

Negative Factors- Factors that can lead to negative rating action/ downgrade

Continued decline in profitability margins or deterioration in liquidity profile.

Detailed description of the key rating drivers

Key Rating Strengths

Long operational track record of the Paragon group

Paragon group began its operations in 1975 with a production capacity of 1500 pairs per day in Kerala and started expanding its presence to other states from 1982. Paragon is managed by second generation promoters who have over 20 years of experience in the footwear Industry. Over the years, company has expanded its facilities and the current capacity stands at 4 lakh pairs per day.

Established brand name and strong position in Indian non leather footwear industry

'Paragon' brand is well established in the Indian non-leather footwear industry. Paragon group was a pioneer in bringing the 'hawai' slippers to the Indian Market four decades ago and the group still holds the dominant presence in this segment. Over the years, products offered has been diversified into other rubber and polymer based footwear products predominantly in the low and mid-price segment. Further, during FY21, company has launched premium products in higher

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

price segment. Paragon spends well on the advertisement and sales promotion activities related to its brands. The group in general spends around 5-6% of its TOI on marketing campaigns.

Wide distribution network with geographically diversified revenue base

Paragon has established a wide distribution network spread across the country. The distribution of footwear is networked through 15 depots across India along with a network of more than 550 distributors. Through these distributors, the products are supplied to the retailers across India. The revenue is spread across the nation without much concentration in a specific region.

Improvement in *financial risk profile*

Paragon's profitability (PBDIT) margins improved from 5.53% FY19 to 7.54% FY20 on back of better sales realization and inventory management. Profitability had improved further during H1FY21 with company reporting PBIDT margin of 10.5%. Efforts are also on to reduce the distribution cost by direct supply from factories and close down the depots (which currently consumes 4-5% cost). Sales, however, continues to be flat in FY20 due to loss of business in the month of March because of lockdown. Despite of Covid-19, company during H1FY21 has achieved sales of Rs. 677.0 cr. Overall gearing improved from 1.15x as on Mar'19 to 0.66x as on Mar'20. Improvement in gearing was on account of decrease in WC loan utilization during FY20 compared to last year. Going forward, closing of depots and direct supply from factories is expected to further support its operational efficiency.

Diverse product portfolio

Paragon group had been a major player in the rubber footwear segment being the market leader in 'hawai' slippers. However, to reduce dependence on 'hawai' and to keep in pace with the changing customer preference, diversified products have been introduced under the brand paragon especially in the PU and EVA segments. To further diversify, in FY21, Company launched two branded premium segments 'EEKEN' for Youth and 'CARMICCI' leather footwear segments for Men. The growth in the sales over the years has largely come from the PU segment aided by increased acceptance in the market.

Key Rating Weaknesses

Ongoing dispute within the board members over certain subcontract payments which were allegedly overcharged.

The Directors of the company engaged Deloitte Touche Tohmatsu India LLP (DTTILLP), to assist the company in the investigation of allegations of vendor favoritism and malpractice made against certain employees and subcontractors of the company during the period (2011 – 16). Post investigation, DTTILLP submitted its final report on 15th October 2018 estimated a potential impact of Rs.6.83cr. The matter was later referred to NCLT which appointed Hon'ble Justice (Retd.) Mrs. Chitra Venkataraman to examine the report and suggest course of action.

Currently, the forensic audit as directed by NCLT appointed Hon'ble Justice (Retd.) Mrs. Chitra Venkataraman is going on and the report is expected to be submitted by May 2021. The auditor has qualified the audit report in this regard stating that the possible effect from the outcome of the forensic audit on company's income before taxes, reserves and consequential recovery from employees, vendors and other persons is not quantifiable. As such, management does not envisage significant deviation in disputed amount and that overcharged amount would be added back as income though recovery of the same from concerned employee or vendor would remain uncertain.

Moreover, the company has taken/taking several steps to strengthen its corporate governance inline with listed companies including appointement of an Audit committee and external audit firm to review internal control framework, Standard Operating Procedures and suggest necessary changes.

Susceptibility of margins to volatility in raw material prices

The main raw materials are Natural Rubber, Synthetic Rubber, PU, EVA, PVC etc., the prices of which are linked with crude oil prices and are volatile. Raw material consumption cost is the major cost component for the group and constituted about 45-50% of the total operating income. The profitability is susceptible to the fluctuations in the price of these raw materials.

Working capital intensive nature of operations and moderate liquidity

The company's operation is highly working capital intensive, predominantly due to the higher inventory holding especially of finished goods at its depots to meet its demands and ensure continuous supply.

Fragmented and competitive industry

The domestic footwear industry is fragmented and is characterised by large number of unorganised players. Paragon group also faces stiff competition from other organized players in the sector. However, Paragon group with its strong brand name and wide distribution network has been able to withstand competition and sustain its sales over the years.

Liquidity: Adequate
The company's liquidity is aided by improvement in cash accruals of the company vis-à-vis relatively lower debt repayments. The company also had unutilized CC limit of Rs. 110 cr. as on September 30, 2020. Paragon generally holds higher inventory especially of finished goods at its depots to meet its demands and ensure continuous supply. The demand is seasonal to an extent with increased sales during the month of April to June and again during the festive season of Diwali. The average collection period for Paragon was at 12 days during FY20 and average creditor period was 37 days. The company provides a maximum credit period of 30-45 days and generally receives payments within 2 weeks. Company has not availed moratorium under RBI's Covid-19 regulatory package.

Analytical approach: Standalone
In the past, till FY18, CARE has taken a combined approach as the group carried its operations- manufacture and sale through three different entities viz., Paragon, Preston India Pvt. Ltd. and Elastrex Polymers Pvt. Ltd. During FY18, from October 1, 2017, the group decided to carry on the entire operations (manufacture and sale) under a single entity (Paragon).

Applicable Criteria
CARE's methodology for manufacturing companies
CARE's methodology for Short-term Instruments
Criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Financial Ratios-Non Financial Sector
Liquidity Analysis of Non-Financial Sector entities

About the Company
Paragon is engaged in the manufacture and trading of footwear since 1975 and holds a dominant position in the 'hawai' slipper segment in India. The company diversified its product portfolio with the addition of Ethylene Vinyl Acetate (EVA), Polyurethane (PU) and Poly Vinyl Chloride (PVC) based footwear in the recent years. The company has manufacturing facilities at Kottayam, Bengaluru, Salem and Hyderabad with a combined manufacturing capacity of 15 crore pairs per annum and sells its merchandise through a common pan India distribution network of over 550 dealers.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1749.6	1627.59
PBILDT	96.75	122.79
PAT	30.76	52.78
Overall gearing (times)	1.15	0.66
Interest coverage (times)	4.40	6.04

A: Audited
Status of non-cooperation with previous CRA: During August 2016, ICRA had suspended the ratings assigned to the various facilities of Paragon Polymer Products Private Limited. The suspension follows ICRA's inability to carry out a rating surveillance in the absence of the requisite information from the company.

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	198.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-	-	-	-	-	20.00	CARE A2+
Fund-based - LT-Term	-	-	-	March 2021	31.34	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 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/ ST-Cash Credit	LT/ST	198.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-20) 2)CARE BBB+; Stable / CARE A2 (19-Jun-19) 3)CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications) (05-Apr-19)	-	1)CARE A-; Stable / CARE A2+ (27-Mar-18)
2.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A2+	-	1)CARE A2 (30-Mar-20) 2)CARE A2 (19-Jun-19) 3)CARE A2 (Under Credit watch with Developing Implications) (05-Apr-19)	-	1)CARE A2+ (27-Mar-18)
3.	Fund-based - LT-Term Loan	LT	31.34	CARE A-; Stable	-	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (19-Jun-19) 3)CARE BBB+ (Under Credit watch with Developing Implications) (05-Apr-19)	-	1)CARE A-; Stable (27-Mar-18)

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

Working capital limits	Detailed explanation
A. Financial covenants	Not stipulated
B. Non financial covenants	Drawings to be permitted within available Drawing Power Company to obtain prior approval from Bank before repaying the unsecured loan of Rs. 80 crore availed from sister company

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Non-fund-based - ST-Letter of credit	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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