

## Paramount Cosmetics (India) Limited

January 06, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	13.67 (Reduced from 17.12)	CARE B; Stable (Single B; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities	1.00 (Enhanced from 0.88)	CARE A4 (A Four )	Reaffirmed
<b>Total Bank Facilities</b>	<b>14.67</b> <b>(Rs. Fourteen Crore and Sixty-Seven Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Paramount Cosmetics (India) Limited continues to be tempered by modest scale of operations, low cash accruals against debt servicing obligations, weak debt coverage metrics, 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.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

Improvement in cash accruals that is sufficient to cover the repayment obligations

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

Significant deterioration in the debt profile – Interest coverage ratio < 1

### 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 and the scale of operations is yet to reach pre-GST levels. Due to impact of Covid pandemic and subsequent lockdowns, FY21 income declined by 27%. The company has achieved Rs.7.56 crore during H1FY22.

##### Weak debt coverage metrics

Though the company is operating at good PBIDT margin of 15.54%(FY21), PAT margins are thin due to higher interest expense and depreciation. The PBILDT margins widened in H1FY22 due to loss of sales in Apr-21 and May-21 on account of lockdown and most of the selling & marketing expenses for the entire year is already incurred. The company had applied for restructuring under OTR during Sep-20 and the bank facilities were restructured during March-21. The reduction in the limits was funded by disposing the non-operational manufacturing unit at Vapi, Gujarat. TOL/TNW and TDGCA remains high at 3.05x and 12.82x and weak Interest coverage at 1.19x as on March 31,2021

##### Stretched operating cycle

The operating cycle is stretched to 540 days attributed to high finished goods inventory holding of 483 days. The company has the practice of holding the finished goods at higher levels because of the nature of business. Bindi's has to be made available to end users at the stores at all point of times. Inadequate stock will lead to immediate switch over to available brands by the end user segment.

##### 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### 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 analysis : Stretched

Stretched liquidity marked by tightly matched accruals to repayment obligations, 89% utilised bank limits during last 12 months and modest cash balance of Rs. 1.69 crore as on September 30, 2021.

### Analytical approach: Standalone

### Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

### 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 multiproduct 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)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	24.20	17.66	7.56
PBILDT	3.94	2.74	-1.34
PAT	-0.12	0.34	1.29
Overall gearing (times)	1.95	1.95	NA
Interest coverage (times)	1.75	1.19	-1.28

A: Audited, NA – Not available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated for this company:** Annexure 4

### 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-Term Loan		-	-	February 2031	2.50	CARE B; Stable
Fund-based - LT-Working capital Term Loan		-	-	May 2024	2.69	CARE B; Stable
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE B; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	1.00	CARE A4
Fund-based - LT-Term Loan		-	-	February 2028	3.48	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	2.50	CARE B; Stable	-	1)CARE B; Stable (06-Jan-21)	-	-
2	Fund-based - LT-Working capital Term Loan	LT	2.69	CARE B; Stable	-	1)CARE B; Stable (06-Jan-21)	-	-
3	Fund-based - LT-Cash Credit	LT	5.00	CARE B; Stable	-	1)CARE B; Stable (06-Jan-21)	-	-
4	Non-fund-based - ST-ILC/FLC	ST	1.00	CARE A4	-	1)CARE A4 (06-Jan-21)	-	-
5	Fund-based - LT-Term Loan	LT	3.48	CARE B; Stable	-	1)CARE B; Stable (06-Jan-21)	-	-

\* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
I TOL/TNW	TOL/TNW <3.5
II Current Ratio	Current ratio > 1.1
III Interest Coverage	Interest Coverage < 1.5
<b>B. Non financial covenants</b>	
I Routing	Routing of 80% turnover through bank

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Non-fund-based - ST-ILC/FLC	Simple

**Annexure 5: Bank Lender Details for this Company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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