Paramount Speciality Forgings LLP (Formerly Paramount Forge)

February 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	20.48	CARE BB-; Stable; ISSUER NOT COOPERATING*	Revised from CARE BB; Stable and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	1.00	CARE A4; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Paramount Speciality Forgings LLP (Formerly Paramount Forge) (PSFL) to monitor the rating vide e-mail communication dated February 02, 2024, February 01, 2024, January 29, 2024, January 25, 2024, January 05, 2024, December 13, 2023 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. Further, PSFL has also not submitted the No Default Statements (NDS) for the months of November 2023 and December 2023.

In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The ratings of PSFL's bank facilities will now be denoted as **CARE BB-; Stable; ISSUER NOT COOPERATING*/CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The ratings assigned to the bank facilities of Paramount Speciality Forgings LLP (Formerly Paramount Forge) (PSFL) have been revised on account of non-availability of requisite information.

Analytical approach: Standalone

Outlook: Stable

Detailed description of the key rating drivers:

At the time of last rating on March 23, 2023 following were the rating strengths and weaknesses.

Key weaknesses

Modest scale of operations; albeit increase in ToI in FY22 and 11MFY23

During FY22, the ToI of the firm has grown by 69.62% to Rs.87.86 crore (vis-à-vis Rs.51.80 crore in FY21) due to significant increase in domestic sales (from Rs.40.63 crore in FY21 to Rs.68.95 crore in FY22) on the back of increase in volume of Flanges sold from 2,759 MT in FY21 to 3,771 MT in FY22. Furthermore, the exports revenues increased from Rs.11 crore in FY21 to Rs.18.64 crore in FY22. During 11MFY23 (refers to the period April 1, 2022 to February 28, 2023), the firm has registered total sales of around Rs.98.36 crore (including exports sales of Rs.20 crore). Further, the company projected to achieve revenue of Rs105 to 110 crore with the PAT of Rs.5 crore for FY23 marked by order with higher margin coupled with stable raw material and power & fuel prices.

High raw material and high fuel prices impacted PBILDT margins in FY22

During FY22, the PBILDT margin of PSF declined significantly by 787 bps to 4.12% in FY22 (vis-à-vis 11.99% in FY21), owing to significant increase in raw materials prices (namely SS Bar/Billets/MS Plates and Rounds) by 86.79% from Rs.32.96 crore in FY21 to Rs.61.58 crore in FY22). The cost of raw material consumed namely SS Bar/Billets/MS Plates/Rounds constitutes around 70.12% of ToI in FY22 (as against 53.48% in FY21). The decrease in margins was also on account of higher power and fuel cost led by higher crude prices in FY22.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

However, the PAT margin has improved by 308 bps to 4.61% in FY22 (vis-à-vis 1.53% in FY21) primarily on account of one-time gain of Rs.4.11 crore earned on sale of assets such as property and old equipment's in FY22 followed by decrease in interest along with depreciation expenses. Further, the adjusted net profit has reduced to Rs.0.48 crore during FY22 after excluding onetime gain of Rs.4.11 crore on sale of property/plant & equipment. However, after including the above, the firm has registered net profit of Rs.4.05 crore in FY22 along with income tax of Rs.1.25 crore. Going forward with stabilisation of raw material prices and crude oil prices the margins are expected to improve from current levels.

Working capital intensive nature of operations; albeit improvement in FY22
The operating cycle has improved from 69 days in FY21 to 54 days in FY22 primarily on account of decrease in inventory days from 118 days in FY21 to 76 days in FY22 owing to faster turnaround of finished goods inventory which were piled up at the of March 2021. The collection period improved from 76 days in FY21 to 44 days in FY22) due to management strategy to deliver products against LC/Proforma Invoice/payment against delivery which is in line with the credit policy of 30-60 days. Furthermore, the creditors period improved to 67 days in FY22 (vis-à-vis 125 days in FY21).

Presence in competitive & fragmented industry
PSF operates in a highly competitive and fragmented steel industry and hence witnesses intense competition from both organized and unorganized players. This fragmented and highly competitive industry results into price competition thereby affecting the profit margins of the companies operating in the industry.

Susceptibility of profit margins to volatility in raw material prices & foreign exchange fluctuation risk
The firm has no long-term contract with the suppliers of raw materials and solely depends upon the established relationships. The prices of PSF's major raw material, i.e. steel is prone to price volatility and with RM contributing more than 73.14% towards total cost of sales during FY22 (vis-à-vis 60.78% in FY21). Further, the firm holds around 50-60 days of inventory and thus it is subject to risk associated with adverse movement in the raw material prices.

Partnership constitution
Being a partnership firm, PSF is exposed to inherent risk of withdrawal of partners' capital at the time of personal contingency. Furthermore, it has restricted access to external borrowings where net worth as well as creditworthiness of the partner are the key factors affecting credit decision of the lenders. Hence, limited funding avenues along with limited financial flexibility have resulted in small scale of operations for the firm.

Key Strengths
Long track record of the firm with experienced & resourceful promoters
PSF was established as a partnership firm in 1996 and commenced its commercial operations from 1997 and the firm is managed mainly by Harawala and Bhagat family and has more than four decades of experience in steel industry which helps to maintain strong relationships with suppliers and customers. The promoters of PSF are supported by experienced management team to carry out the day -to-day operations of the firm.

Reputed customer base
Due to the long track record of the firm, PSF has developed established relations with reputed customers namely Bharat Petroleum Corporation Ltd. (BPCL), Indian Oil Corporation Ltd. (IOCL), Oil & Natural Gas Commission (ONGC), Emerson Process Management (I) Pvt. Ltd., Thyssenkrupp Industries India Pvt. Ltd., PK International LLC, Teknip Technologies Pvt. Ltd., from varied industries and receives repeat orders from reputed clientele.

Comfortable capital structure and comfortable TD/GCA
PSF's capital structure improved with overall gearing reaching 0.54 times as on March 31, 2022 (vis-à-vis 0.90 times as on March 31, 2021) owing to decrease in the debt levels from Rs.15.90 crore as on March 31, 2021 to Rs.11.77 crore as on March 31, 2022 given the decrease in term loan from Rs.5.69 crore as on March 31, 2021 to Rs.2.38 crore as on March 31, 2022 on account of repayment of term loans instalments.
On the other hand, the tangible networth base of the firm has improved by 23% (from Rs.17.58 crore as on March 31, 2021 to Rs.21.64 crore as on March 31, 2022) due to higher cash accruals. As a result of above improvement, the total debt/GCA improved from 4.56 times in FY21 to 2.14 times in FY22. However, the interest coverage has marginally declined to 2.76 times respectively in FY22 (vis-à-vis 2.88 times in FY21) due to decline in PBILDT level from Rs.6.21 crore in FY21 to Rs.3.62 crore in FY21. Despite comfortable capital structure and debt coverage indicators, given modest scale of operation coupled with moderate capitalization, limits the financial flexibility of the firm to an extent.

Applicable criteria

CARE Ratings' criteria on information adequacy risk and issuer non-cooperation
Policy on Default Recognition
Financial Ratios – Non-financial Sector
Criteria on assigning outlook and credit watch
Short Term Instruments
Manufacturing Companies
Rating Methodology - Iron & Steel

About the firm and Industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Paramount Forge (PF) was established as a partnership firm in 1996 and started its commercial operations from 1997. During the year 2020, the constitution of the firm has changed to Limited Liability Partnership firm under the name of Paramount Speciality Forgings LLP. The firm is managed by Bhagat and Hararwala family and is engaged in the business of manufacturing & exports of carbon steel, stainless steel, and alloy steel forged flanges used in pipe fittings. PF primarily sell products to oil and gas, petrochemicals and allied industries with exports to various countries across Oman, Canada, Italy, United Kingdom contributed. The export contributed about 23.87% of the net sales in FY22 (vis-à-vis 19.57% in FY21). It procures primary raw materials viz. stainless steel (SS) bars, billets, rounds and mild steel (MS) plates, rounds, etc. entirely from domestic market. The firm operates through its two-plant located at Kamothe near Panvel and Khalapur near Khopoli, Maharashtra which is ISO 9001:2008 certified. The administrative office located at Mazgaon, Mumbai. The plant has installed capacity to produce around 8000 MT per annum of various type of forged flanges.

Brief Financials (Rs. crore)	March 31, 2021 (A)	March 31, 2022 (A)	11MFY23(Prov.)
Total operating income	51.80	87.86	98.36
PBILDT	6.21	3.62	-
PAT	0.79	4.05	-
Overall gearing (times)	0.90	0.54	-
Interest coverage (times)	2.88	2.76	-

A: Audited, Prov.: Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL has continued the rating assigned to the bank facilities of PSFL into Issuer Not Cooperating category vide press release dated July 31, 2023 on account of its inability to carry out a review in the absence of the requisite information from the firm.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	11.50	CARE BB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	31-05-2024	2.86	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT-Bank Guarantee		-	-	-	6.12	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bill Discounting / Bills Purchasing		-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	2.86	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (23-Mar-23)	1)CARE BB; Stable (14-Mar-22)	1)CARE BB; Stable (25-Mar-21)
2	Fund-based - LT-Cash Credit	LT	11.50	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (23-Mar-23)	1)CARE BB; Stable (14-Mar-22)	1)CARE BB; Stable (25-Mar-21)
3	Non-fund-based - ST-Bill Discounting / Bills Purchasing	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (23-Mar-23)	1)CARE A4 (14-Mar-22)	1)CARE A4 (25-Mar-21)
4	Non-fund-based - LT-Bank Guarantee	LT	6.12	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (23-Mar-23)	1)CARE BB; Stable (14-Mar-22)	1)CARE BB; Stable (25-Mar-21)

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple
4	Non-fund-based - ST-Bill Discounting / Bills Purchasing	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated: Not Applicable

Note on the complexity levels of the rated instruments: CARE Ratings 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 for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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