Paragon Polymer Products Private Limited

April 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	25.00 (Reduced from 35.00)	CARE BBB+; Stable	Reaffirmed
Long-term/short-term bank facilities	290.00 (Enhanced from 285.00)	CARE BBB+; Stable/CARE A3+	Reaffirmed
Short-term bank facilities	60.00 (Reduced from 65.00)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings of bank facilities of Paragon Polymer Products Private Limited (Paragon) factors its improving profit before interest, lease rentals, depreciation and taxation (PBILDT) margin in FY24 (Provisional) after it was impacted in FY22 and FY23. The improvement was primarily driven by price correction of raw materials such as plastic and rubber. However, the company's profitability and scale of operations has been lower than CARE Ratings Limited's (CARE Ratings') expectation due to destocking done by dealers in anticipation of implementing the Bharat Standard (BS) norms for footwears. Considering these challenges and price revision, CARE Ratings expects the company to improve its turnover and margins in FY25. Paragon's ability of sustaining its improved profitability while increasing its capacity utilisation will be key to its prospects.

Ratings continue to positively factor promoters' vast experience and the Paragon group's long operational track record, its established brand presence with a strong market position in the Indian non-leather footwear industry and its geographically widespread distribution network.

These strengths are partially offset by working capital-intensive operations, profitability levels vulnerable to volatile raw material prices and the highly competitive nature of the footwear industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sales improving to more than ₹2,000 crore with profit before depreciation, interest and taxes (PBDIT) margin improving to 10% while maintaining overall liquidity profile.

Negative factors

- Continuously volatile profitability margins or deteriorating liquidity profile.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation of recovery in profitability, aided by softening crude oil prices and revision in footwear prices by the company.

Detailed description of key rating drivers

Key strengths

Long operational track record of the Paragon group

Paragon began its operations in 1975 with a production capacity of 1,500 pairs per day in Kerala and started expanding its presence to other states from 1982. Paragon is managed by second-generation promoters, who have more than 20 years of experience in the footwear industry. Over the years, the company has expanded its facilities, with the current capacity standing at 4 lakh pairs per day.

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

Established brand name
The Paragon group was a pioneer in bringing the 'Hawai' slippers to the Indian market four decades ago and the group still holds a dominant presence in this segment. Over the years, products offered have been diversified into other rubber and polymer-based footwear products, predominantly in the low and mid-price segment. Paragon spends well on advertisement and sales promotion activities related to its brands, with the group generally spending about 5-6% of its sales on marketing campaigns. CARE Ratings expects the company's strong brand recall and continuous launch of new products to help it gradually improve its scale of operations.

Diverse product portfolio
To reduce dependence on 'hawai' and to keep in pace with changing customer preferences, Paragon has introduced diversified products, especially in polyurethane (PU) and ethylene vinyl acetate (EVA) segments. To further diversify, the company was predominantly earlier offering open footwear, while it has started selling closed footwears, which offers higher margins, in past two years.

Key weaknesses
Marginally improving financial risk profile in FY24
The company's total operating income (TOI) remained stagnant in FY24 at ₹1,801 crore from ₹1,860 crore in FY23, primarily impacted by notification of BS on footwear by the Central Government proposal to implement the same from July 1, 2023. The BS required footwear manufacturers to acquire a license and mention it on the footwear, maintain minimum quality standards such as breakability levels, soles and not contain certain type of chemicals, among others. Without this, the dealer would not be allowed to sell such products. This was subsequently postponed up to January 1, 2024. Moreover, the government did not issue a circular regarding stock-in-hand and the timeline for selling these stocks-in-hand. This resulted in dealers reducing their purchases from manufacturers (like Paragon) and destocking in FY24. Consequently, the first two quarters experienced a downturn in sales.

The company's profitability margins have improved in FY24 after falling in FY22 and FY23 as a result of a fall in raw material costs, relatively stable crude prices observed in FY24 as against earlier years, price revisions undertaken for its product and introduction to more varieties of closed footwear such canvas shoes, school shoes, among others, which fetch highest margins. Despite improving PBDIT margins, it continues to be lower than earlier levels of 10-11%. With expectation of reduced advertisement spends and on implementing BS standards which will increase footwear prices, CARE Ratings opines that the company's PBDIT margin will gradually improve to 10-11% in the medium term.

Working capital-intensive operations and moderate liquidity
The company's operations are highly working capital-intensive, predominantly due to higher inventory holding, especially of finished goods at its depots for meeting demands and ensuring continuous supply. The company's operating cycle was 78 days in FY24 (Provisional) as against 76 days in FY23.

Margins susceptible to volatile raw material prices
Main raw materials are natural rubber, synthetic rubber, PU, EVA, poly vinyl chloride (PVC), among others, whose prices are linked with crude oil prices and are volatile. Raw material consumption cost is the major cost component for the group and constituted about 53% of the total operating income (TOI) in FY24 (Provisional) and 60% in FY23. Profitability is susceptible to fluctuating prices of these raw materials.

Fragmented and competitive industry
The domestic footwear industry is fragmented and is characterised by numerous unorganised players. Paragon also faces stiff competition from other organised players in the sector. However, CARE Ratings notes that the 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 profile is adequate, mainly due to low debt repayment obligations and expectations of continuously improving cash accruals with improving earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin, as the price hike taken on footwear will continue. Promoters have been regularly infusing funds to support operations in the past and will continue doing so, if required. The had cash and cash equivalents of ₹10.21 crore as on March 31, 2024.

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]
[Retail]

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Footwear

Paragon has been manufacturing and trading footwear since 1975 and holds a dominant position in the 'hawai' slipper segment in India. The company diversified its product portfolio by adding EVA, PU and PVC-based footwear in 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 more than 550 dealers.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	1,873.10	1,801.00
PBILDT	47.76	129.58
PAT	-66.12	1.65
Overall gearing (times)	2.65	2.43
Interest coverage (times)	0.94	2.20

A: Audited; UA: Unaudited. Note: These are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	September 2026	25.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing credit	-	-	-	-	290.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	-	60.00	CARE A3+

CareEdge RATINGS

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ ST-CC/Packing credit	LT/ST	290.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (03-Aug-23)	1)CARE A-; Negative / CARE A2+ (05-Jul-22) 2)CARE A-; Negative / CARE A2+ (07-Jun-22)	1)CARE A-; Stable / CARE A2+ (05-Jul-21)
2	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A3+	-	1)CARE A3+ (03-Aug-23)	1)CARE A2+ (05-Jul-22) 2)CARE A2+ (07-Jun-22)	1)CARE A2+ (05-Jul-21)
3	Fund-based - LT-Term loan	LT	25.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Aug-23)	1)CARE A-; Negative (05-Jul-22) 2)CARE A-; Negative (07-Jun-22)	1)CARE A-; Stable (05-Jul-21)

LT: Long term; ST: Short term; LT/ST: Long term/short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Note on complexity levels of 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.

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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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