Prominent Fibres Private Limited

December 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	97.00 (Enhanced from 87.00)	CARE BB; Stable	Upgraded from CARE BB-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in rating assigned to the bank facilities of Prominent Fibres Private Limited (PFPL) is driven by successful completion of project & ramp up of operations within the envisaged cost & timeline. The rating further derives strength from locational advantage and experienced management team. However, rating is constrained on account of nascent stage of operations, leveraged capital structure with weak debt coverage indicators and stretched liquidity position. The rating, further, remains constrained on account of susceptibility of profitability margins to volatility in prices of raw material prices & presence in a highly competitive and fragmented nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in Total operating income (TOI) above Rs. 125 crores with improvement in Profit before interest, lease depreciation & taxation (PBILDT) margin above 12.00% on sustained basis.
- Improvement in capital structure marked by an overall gearing ratio below 2.25x on a sustained basis.

Negative factors

- Unable to successful scale up the operations resulting in TOI below Rs. 80 crores with PBILDT margin below 5.00%.
- Deterioration in financial risk profile as marked by Total debt to PBILDT of above 6x on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook on the long-term rating of the company is based on the expectation that PFPL will continue to benefit from India's growing appetite for High-Density High Moisture Resistance (HDHMR) and Medium Density Fibre (MDF) board, which will help the company to scale up its TOI, profitability and improved financial risk profile over the medium term.

Detailed description of key rating drivers:

Key strengths

Successful completion of projection & ramp up of operations within the envisaged cost & timeline:

The company had undertaken a project for manufacturing of MDF & HDHMR board having capacity 250 cubic meter (CBM) per day at Makhdoompur, Uttarakhand. The company successfully completed the project ahead of schedule & started commercial operations (COD) in February 2024, compared to the initially planned COD in April 2024. Also, the company was able to save the project cost by ~Rs. 8 crores by making payments to their Chinese supplier, in Chinese yuan (CNY) and managing the project in an organized & efficient manner.

Locational advantage:

Eucalyptus & firewood are used as a raw material for manufacturing of MDF Board. Eucalyptus can be procured from forests in surrounding areas in the State of Uttarakhand, where abundant amount of Eucalyptus and Poplar wood are available in large forest region in Uttarakhand. Being a forest belt, availability of the raw materials would not pose any issue. Other raw materials glue, wax & hardener etc. are required in small quantities & readily available from open market in National capital region (NCR) and can be readily sourced from the number of local dealers or local market. Easy accessibility of required raw materials gives a strategic advantage to the company.

Experienced management:

PFPL is promoted by Mr. Pankaj Gupta having experience of more than 3 decades in trading and manufacturing industry. Mr. Gupta brings relevant industry experience, which adds valuable expertise to the business. The promoter of the company along

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

with the other directors are ably supported by professional, qualified & experienced staff. Further, company has hired qualified, experienced & department specific head for each of the specific department such as plant head, sales & marketing, human resource & administration etc.

Key weaknesses

Nascent stage of operations:
The company has started commercial production w.e.f. February 2024 (as against envisaged timeline of April 2024) resulting in modest scale of operations of around Rs. 8 crores with losses reported on net level during FY24. Since, modest scale is not able to absorb the high interest expense & fixed operational costs. However, the company was able to achieve operational profit during FY24 (refers to the period April 01 to March 31).
During H1FY25 (refers to the period April 01 to September 30), the company has achieved TOI of around Rs. 41 crores with losses reported on net level while continued profit at operational level. Going ahead, the ability of the company to stabilise and scale up its operations will remain a key monitorable.

Leveraged capital structure & debt protection matrices:
Though the capital structure and debt coverage indicators of PFPL is currently leveraged owing to debt funded capex project, the same is expected to improve in the medium term with the gradual repayment of debt. The overall gearing as on March 31, 2024, stood at 3.80x.

Volatility in Raw material prices:
Eucalyptus & firewood are used as a raw material for manufacturing of MDF Board. Raw-material prices may rise due to rising demand, short supply and heavy rains. Thus, major raw material price for the MDF board is volatile in nature depending upon demand scenario and supply limitations depending upon rain.

Increasing competitive industry:
In the recent past, the domestic MDF/HDHMR board market witnessed substantial capacity addition across players. Large capacity expansions have been planned by industry players. This may lead to increase in competitive intensity when these capacities come onstream over the next one-two years. The company continues to face intense competition from imports. Imports slowed in FY21 and FY22 due to container availability issues and higher freight costs. However, imports witnessed an increasing trend from FY23 and grew significantly in FY24, which impacted the profitability of domestic players and would remain a key rating monitorable. However, favourable demand supply gap in the domestic market as well as healthy growth in demand for the boards in recent times provides some degree of comfort.

Environment, social, and governance (ESG) risks:
The company is exposed to tightening environmental compliance and emission norms since it uses wood-based raw materials and chemicals. Although, company has already taken all the necessary clearances/approvals regarding the industry set up and maintains environmental compliance.

Liquidity: Stretched
The company has recently set up MDF & HDHMR plant & started commercial production w.e.f. February-2024 resulting in modest scale of operations with low cash accruals due to nascent stages of operations which keeps the liquidity position stretched. Although, repayment for term loan would be starting from Q1FY26 (refers to the period April 01 to June 30). Average utilisation of working capital limit has remained high at ~90% since COD with minimal cash & bank balance of ~ Rs. 1 crore as on March 31, 2024.
Company's ability to stabilise and scale up its operations & resultant improvement in liquidity position would remain a key monitorable.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch

[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plywood Boards/ Laminates

PFPL was incorporated on February 04, 2021, the company has recently commenced its operations for manufacturing of Medium Density Fibers (MDF) & High-Density High Moisture Resistance (HDHMR) boards with installed capacity of 5000 boards per day at plant located in Makhdoompur, Roorkee (Uttarakhand).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	0.00	7.77	41.28
PBILDT	-0.03	1.00	2.74
PAT	-0.04	-2.61	-7.23
Overall gearing (times)	2.00	3.80	NA
Interest coverage (times)	-32.00	0.65	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Note: Company's operations have started from Q4FY24 (refers to the period January 01 to March 31).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-03-2032	67.00	CARE BB; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	30.00	CARE BB; Stable

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-Working Capital Limits	LT	30.00	CARE BB; Stable	-	1)CARE BB-; Stable (03-Nov-23)	-	-
2	Fund-based - LT-Term Loan	LT	67.00	CARE BB; Stable	-	1)CARE BB-; Stable (03-Nov-23)	-	-

LT: Long 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-Working Capital Limits	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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