PHPC Associates

November 20, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	9.00	**CARE BB; Stable (Double B; Outlook Stable)**	**Assigned**
Total	**9.00 (Rupees nine crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PHPC Associates (PHPC) are tempered by constitution of the entity as a proprietorship firm, highly competitive and fragmented trading industry and geographically concentrated revenue profile. However, the ratings are underpinned by experience of the proprietor of over a decade in the business of trading bitumen, increasing operating income and profitability margins, moderate capital structure and satisfactory debt coverage indicators, comfortable operating cycle days and stable outlook for bitumen industry.

Going forward, the ability of the firm to improve its scale of operations and maintain profitability margin amidst competition, improve its capital structure and to enhance its geographical reach shall remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Highly competitive and fragmented trading industry

The firm operates in highly fragmented and competitive industry wherein the presence of large number of entities in the un-organized sector and established players in the organized sector is seen. Furthermore, the firm is also exposed to competitive pressures from domestic players as well as from big, well established players from abroad.

Constitution of the entity as a proprietorship firm

The proprietor typically makes all the decisions and led the business operations. If he became ill or disabled, there may not be anybody else to step in and maintain the optimum functioning of business. A business run by proprietor also poses a risk of heavy burden, i.e. an inherent risk of capital withdrawal, at a time of personal contingency which can adversely affect the capital structure of the firm. Moreover, the proprietorship firms have restricted access to external borrowing which limits their growth opportunities to some extent.

Geographical concentrated revenue profile

The revenue profile of the firm is concentrated in nature, with 100% revenue booked from customers located in the states of south India exposing the firm to geographical concentration risk. Political unrests, ecological disturbances or natural disasters might adversely affect the firm's profitability.

Key Rating Strengths

Experience of the proprietor for over a decade in the business of trading bitumen

The proprietor, Mr. Umesh Hegde has 15 years of experience in bitumen trading. Prior to the establishment of PHPC, Mr. Hegde was engaged in the transportation of Bitumen through the group concern, Hegde Bulk Carriers. Mr. Hegde is also the director in Krush-Tar Industries Private lImited, which is one of the major suppliers of bitumen for PHPC. Over the years, Mr. Umesh Hegde has established a clientele network across Karnataka region.

Increasing Total Operating Income and Profitability Margins

The total operating income (TOI) of the firm grew at a CAGR of about 13% from Rs.78.45 crore in FY16 to Rs.112.50 crore during FY18 (Prov.) due to increase in sales volume of bitumen during the review period. Trading in bitumen increased from 28700mt in FY17 to 43000mt in FY18 (Prov.).

The PBILDT margin of the firm stood satisfactory, inspite of presence in competitive and fragmented bitumen trading business, due to diversified customer base and fluctuating bitumen prices, which comprises of 80% of cost of material. Furthermore, the PBILDT margin of the firm grew year-on-year from 3.64% in FY16 to 7.73% in FY18 (Prov.) on account of decrease in cost of goods traded. The PAT margin of the firm also increased year-on-year from 1.44% in FY16 to 4.39% in FY18 (Prov.) at the back of increase in networth due to year-on-year accretion of profit.

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

Comfortable operating cycle days

The firm operates in working capital intensive nature of operations. However, the operating cycle of the firm remained satisfactory and stood at 27 days in FY18 (Prov.). The firm allows a credit period of 50-60 days to its customers. The average creditor period has decreased from 43 days in FY17 to 23 days in FY18 (Prov.) due to increase in purchases from reputed clientele who demand prompt payment. Further, the firm's average inventory holding period is negligible during review period due to easy availability of material. The firm places the order as and when required and directly transports it from the suppliers place to the customer's destination. The average utilization of working capital facility stood at 80-90% for the last 12 months ended September 30, 2018.

Moderate capital structure and satisfactory debt coverage indicators

The capital structure of the firm remained moderate marked by debt to equity and overall gearing ratio. The debt to equity of the firm has improved from 1.45x as on March 31, 2017 to 1.08x as on March 31, 2018(Prov.) due to accretion of profits to the business though there was an increase in long term debt to fund for the construction of office premises and purchase of commercial vehicles. Due to the aforementioned reason and moderate working capital utilisation, the overall gearing ratio of the firm improved from 2.35x as on March 31, 2017 to 1.58x as on March 31, 2018 (Prov.).
Total debt/ CFO has deteriorated as on March 31, 2018(Prov.) and stood at 38.34x due to increase in total debt and receivables along with decrease in inventory.
The debt coverage indicators of the firm remained satisfactory during review period. The total debt/GCA has improved from 5.22x in FY17 to 2.90x in FY18 (Prov.) due to increase in gross cash accruals at the back of increase in PBILDT in absolute terms. On similar lines, the PBILDT interest coverage ratio has improved from 2.67x in FY17 to 4.92x in FY18 (Prov.).

Stable outlook for Bitumen industry

The global bitumen market growth rate was 4% in 2017 and is expected to witness significant growth over the next eight years owing to increasing use in various applications including roadways, waterproofing, insulation, and adhesives. Rapid urbanization in emerging markets has contributed to rising in infrastructure activities. This has resulted in increasing demand for the product.

Liquidity Analysis

The current ratio of the firm stood satisfactory at 2.04x as on March 31st, 2018 due to relatively high account receivables compared to account payables including working capital bank borrowings. The firm has investment in gold and PPF amounting to Rs 0.02 crore as investment in liquid assets with a cash and bank balance of Rs 0.04 crore as on March 31st, 2018.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the firm

PHPC Associates (PHPC) was established in the year 2012 as a proprietorship concern by Mr. Umesh Hedge. The firm is located at Mangaluru (Karnataka) and engaged in the trading of bitumen, emulsion and furnish oil. The firm has its customer base spread across the states of Karnataka, Tamil Nadu and Kerala.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (Prov.)
Total operating income	78.86	112.50
PBILDT	5.64	8.69
PAT	1.77	4.94
Overall gearing (times)	2.35	1.58
Interest coverage (times)	2.67	4.92

A-Audited; Prov.-Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	9.00	CARE BB; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	9.00	CARE BB; Stable	-	-	-	-

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