

Paragon Polymer Products Private Limited

April 5, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	52.98 (reduced from 69.01)	CARE BBB+ (Triple B Plus) (Under Credit watch with developing implications)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable) Placed on credit watch with developing implications
Long-term/Short-term Bank Facilities	181	CARE BBB+ / CARE A2 (Triple B Plus / A Two) (Under Credit watch with developing implications)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus) Placed on credit watch with developing implications
Short-term Bank Facilities	52 (reduced from 53)	CARE A2 (A Two) (Under Credit watch with developing implications)	Revised from CARE A2+ (A Two Plus) Placed on credit watch with developing implications
Total Facilities	285.98 (Rupees Two Hundred Eighty Five crore and Ninety Eight lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Paragon Polymer Products Private Limited (Paragon) factors in the decline in profits and higher leverage levels as per provisional financial statements submitted by the company. Further, CARE has placed the ratings assigned to the bank facilities of Paragon under 'credit watch with developing implications' on account of delay in finalising the audited financials for the period FY18 (refers to the period April 01 to March 31). CARE understands that the audited financials have not been finalised on account of disagreement amongst the Board on certain matters and the matter is presently with the National Company law Tribunal. CARE is monitoring the developments in this regard and will take appropriate rating action when greater clarity emerges.

The ratings continue to derive strength from the vast experience of the promoters & long operational track record of the Paragon group, its established brand presence with a strong market position in the Indian non-leather footwear industry, diverse product portfolio and geographically widespread distribution network.

The ratings, however, are constrained by the working capital intensive nature of operations, vulnerability of profitability levels to volatility in raw material prices, highly competitive nature of the footwear industry.

Going forward, the ability of Paragon to strengthen its market position, scale up operations, improve profitability margins and capital structure by managing its working capital requirements effectively would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long operational track record of the Paragon group

The Paragon group began its operations in 1975 with a production capacity of 1500 pairs per day in Kerala and started

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

expanding its presence to other states from 1982. Elastrex Polymers Private Limited (EPPL) was incorporated in 1988 with a manufacturing facility in Bangalore and Paragon was incorporated in 1990. Preston India Private Limited (PIPL) was incorporated later in 2000, with additional manufacturing facilities in Bangalore. Paragon is managed by second generation promoters who have over 20 years of experience in the footwear Industry.

Established brand name and strong position in Indian non leather footwear industry

'Paragon' brand is well established in the Indian non-leather footwear industry. The Paragon group was a pioneer in bringing the 'hawai' slippers to the Indian market four decades ago and the group still holds the 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.

Wide distribution network with geographically diversified revenue base

Paragon has established a wide distribution network spread across the country. The distribution of footwear is networked through 18 depots across India along with a network of more than 450 distributors. Through these distributors, the products are supplied to the retailers across India. The revenue is spread across the nation without much concentration in a specific region.

Diverse product portfolio

The Paragon group had been a major player in the rubber footwear segment being the market leader in 'hawai' slippers. However, to reduce dependence on 'hawai' and to keep in pace with the changing customer preference, diversified products have been introduced under the brand Paragon especially in the PU and EVA segments. From about 38% of the total sales value in FY13, 'hawai' now only accounts for about 27% of the total sales during FY18. The growth in the sales over the years has largely come from the PU segment aided by increased acceptance in the market.

Key rating weaknesses

Disagreement among the directors and delay in finalising the audited financials for FY18

Discussions with the company officials indicated that there were allegations that in few instances, Job work, which were subcontracts were allegedly overcharged in collusion with one of the employee. Subsequent to that, the management appointed M/s Deloitte to conduct an audit to find out the scale of impact. Since the Deloitte audit was inconclusive and there was a difference of opinion amongst the directors on the future course of action, the matter has been referred to NCLT. The matter is presently with NCLT for mediation among the directors who are from the promoter family. Consequent to this, the accounts for FY18 have not been finalised by the board of Directors.

Susceptibility of margins to volatility in raw material prices

The main raw materials are natural rubber, synthetic rubber, PU, EVA, PVC etc., the prices of which are linked with crude oil prices and are volatile. Raw material consumption cost is the major cost component for the group and constituted about 60% of the total operating income. The profitability is susceptible to the fluctuations in the price of these raw materials.

The company's profitability decreased during FY18 on account of volatility in raw material prices and increase in sales expenses by way of incentives offered to dealers and discounts to increase growth in total sales.

Higher leverage levels

Paragon's overall gearing has increased and stood moderate at 1.39x as on March 31, 2018 when compared with 0.38x as on March 31, 2017, as debt levels in Paragon have increased to support the working capital for the increased scale of operation.

Working capital intensive nature of operations and moderate liquidity

The company's operation is highly working capital intensive, predominantly due to the higher inventory holding especially of finished goods at its depots to meet its demands and ensure continuous supply. Paragon's average utilisation of working capital limits stood moderate at 60% (as per banker interaction) which has increased compared with 36% during the last review. The group provides a maximum credit period of 30 days and generally receives payments within 2 weeks. Paragon's current ratio stood at 0.94x as on March 31, 2018. The company had a cash balance of Rs.7.73 crore and Rs.1.48 crore as on March 31, 2018 and December 31, 2018 respectively.

Fragmented and competitive industry

The domestic footwear industry is fragmented and is characterised by large number of unorganised players. Paragon group also faces stiff competition from other organized players in the sector. However, Paragon group with its strong brand name and wide distribution network has been able to withstand competition and sustain its sales over the years.

Analytical approach: Standalone

In the past, till FY18, CARE has taken a combined approach as the group carried its operations- manufacturing and sales through three different entities, viz, Paragon, PIPL and EPPL. During FY18, with effect from October 1, 2017, the group decided to carry on the entire operations (manufacture and sale) under a single entity (Paragon).

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating methodology: Factoring linkages in rating](#)

[Criteria for short term instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios –Non-Financial Sector](#)

About the Company

The Paragon group is engaged in the manufacture and trading of footwear since 1975 and holds a dominant position in the 'hawai' slipper segment in India. The group diversified its product portfolio with the addition of Ethylene Vinyl Acetate (EVA), Polyurethane (PU) and Poly Vinyl Chloride (PVC)-based footwear in the recent years. All three companies of the group, viz, Paragon, PIPL and EPPL were engaged in the manufacture of rubber and polymer-based (PU, PVC and EVA) footwear till September 30, 2017. On October 01, 2017, the group decided to carry out its entire manufacturing operations under Paragon. The group has manufacturing facilities at Kottayam, Bengaluru, Salem and Hyderabad with a combined manufacturing capacity of 5 lakh pairs per day and sells its merchandise through a common pan India distribution network of over 450 dealers.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (P)
Total operating income	789.76	1309.49
PBILDT	80.72	82.14
PAT	36.87	38.54
Overall gearing (times)	0.38	1.39
Interest coverage (times)	6.56	10.70

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: During August 2016, ICRA had suspended the ratings assigned to the various facilities of Paragon Polymer Products Private Limited. The suspension follows ICRA's inability to carry out a rating surveillance in the absence of the requisite information from the company.

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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/ ST-Cash Credit	-	-	March 2021	181.00	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)
Non-fund-based - ST-Letter of credit	-	-	-	52.00	CARE A2 (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	-	52.98	CARE BBB+ (Under Credit watch with Developing Implications)

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/ ST-Cash Credit	LT/ST	181.00	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable / CARE A2+ (27-Mar-18)	1)CARE A-; Stable / CARE A2+ (15-Mar-17) 2)CARE A- / CARE A2 (12-Apr-16)	-
2.	Non-fund-based - ST-Letter of credit	ST	52.00	CARE A2 (Under Credit watch with Developing Implications)	-	1)CARE A2+ (27-Mar-18)	1)CARE A2+ (15-Mar-17) 2)CARE A2 (12-Apr-16)	-
3.	Fund-based - LT-Term Loan	LT	52.98	CARE BBB+ (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (27-Mar-18)	1)CARE A-; Stable (15-Mar-17) 2)CARE A- (12-Apr-16)	-
4.	Fund-based - LT/ ST- Stand by Line of Credit	-	-	-	-	-	1)CARE A- / CARE A2 (12-Apr-16)	-

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