# Paragon Polymer Products Private Limited

June 19, 2019

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Remarks** |
|---|---|---|---|
| Long-term Bank Facilities | 52.98 | **CARE BBB+; Stable (Triple B Plus; Outlook: Stable)** | **Removed from credit watch; Rating Reaffirmed** |
| Long-term/short-term Bank Facilities | 181.00 | **CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable / A Two)** | **Removed from credit watch; Rating Reaffirmed** |
| Short-term Bank Facilities | 52.00 | **CARE A2 (A Two)** | **Removed from credit watch; Rating Reaffirmed** |
| **Total facilities** | **285.98 (Rupees Two Hundred and Eighty Five crore and Ninety Eight lakh only)** | | |

*Details of facilities in Annexure-1*

## Detailed Rationale & Key Rating Drivers

*CARE had earlier placed the ratings of Paragon Polymer Products Private Limited 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). The company has now finalised the audited financials for FY18. CARE's last review was based on the provisional numbers for FY18 and the audited numbers are largely in line with the provisional numbers. CARE notes that the auditors have qualified the accounts of FY18 with respect to the outcome of the proceedings in NCLT, Chennai and the consequent impact of same on the company's financials. CARE would continue to monitor developments with regard to the NCLT proceeding and the outcome of the same would remain a key rating sensitivity. However, CARE also notes that the indicative amount as given by an external firm probing the allegations of malpractice, which is the subject matter of the proceedings at NCLT, does not have a significant impact on the credit profile of the company.*

*The ratings continue to derive strength from the long operational track record of Paragon group, its established brand presence with a strong market position in the Indian non-leather footwear industry, diverse product portfolio & 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 and higher leverage levels and 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 also be key rating sensitivities.*

## Detailed description of the key rating drivers

### Key Rating Strengths

***Long operational track record of the Paragon group***

Paragon group began its operations in 1975 with a production capacity of 1500 pairs per day in Kerala and started expanding its presence to other states from 1982. 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. 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 has 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.

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

***Diverse product portfolio***
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**
***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. The company reported total operating income of Rs.1335.62 crore with PBILDT margin of 8.57% during 9M FY19.

***Higher leverage levels***
Paragon's overall gearing has increased and stood moderate at 1.02x as on March 31, 2018 when compared to 0.25x (at a combined level of the group) as on March 31, 2017 as debt levels in paragon has increased to support the working capital for the increased scale of operation. Paragon's overall gearing was at 1.09x as on December 31, 2018.

***Working capital intensive nature of operations***
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.

***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.

<u>Liquidity:</u>
Paragon's liquidity is marked by adequate accruals against repayment obligations. The company had cash balance of Rs.7.73 crore and Rs.1.48 crore as on March 31, 2018 and December 31, 2018 respectively. The company's average utilisation of working capital limits stood moderate at 45 - 60% (as per banker interaction) which has increased compared to 36% during last review. Paragon's current ratio stood at 1.11x as on March 31, 2018.

***Delay in finalization of audited accounts for FY18 and qualifications on the audited accounts***
The Directors of the company engaged Deloitte Touche Tohmatsu India LLP (DTTILLP), to assist the company in the investigation of allegations of vendor favoritism and malpractice made against certain employees and sub-contractors of the company during the period (2011 – 16). Post investigation, DTTILLP submitted its final report on 15th October 2018. The report stated that while the analysis is largely based on assumptions, the potential impact due to overcharging and other related acts determined in the report was estimated at Rs.6.83 crores, during the period (2011 – 2016). It also stated that this estimation is indicative not conclusive.
Pursuant to this report from DTTILLP, there was a disagreement amongst the board of directors of the company on the future course of action on the basis of the report. The matter is presently under National Company Law Tribunal (Bench at Chennai) which has appointed Hon'ble Justice (Retd.) Mrs Chitra Venkataraman to examine the report submitted by DTTILLP and to give legal opinion and suggest course of action to be followed by the company.
As a consequence of this and any other directions from NCLT, no determination of material weakness in the internal financial controls over financial reporting and the consequential impact, if any has been made by the statutory auditor M/S K.Venkatachalam Aiyer & Co. Further, the auditors have also stated that it may not be possible to make any determination on whether fraud has occurred on the company.

**Analytical approach:** Standalone
In the past, till FY18, CARE has taken a combined approach as the group carried its operations- manufacture and sale through three different entities viz., Paragon, Preston India Private Limited (PIPL) and Elastrex Polymers Private Limited (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**
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, Preston India Private Limited and Elastrex Polymers Private Limited were engaged in manufacture of rubber and polymer (PU, PVC and EVA) based 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 (A) |
|---|---:|---:|
| Total operating income | 789.76 | 1309.11 |
| PBILDT | 80.72 | 81.75 |
| PAT | 36.87 | 38.52 |
| Overall gearing (times) | 0.38 | 1.02 |
| Interest coverage (times) | 6.56 | 10.66 |

*A: Audited*

**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

**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 | - | - | - | 181.00 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - ST-Letter of credit | - | - | - | 52.00 | CARE A2 |
| Fund-based - LT-Term Loan | - | - | March 2021 | 52.98 | CARE BBB+; 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT/ ST-Cash Credit | LT/ST | 181.00 | CARE BBB+; Stable / CARE A2 | 1)CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications) (05-Apr-19) | - | 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 | 1)CARE A2 (Under Credit watch with Developing Implications) (05-Apr-19) | - | 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+; Stable | 1)CARE BBB+ (Under Credit watch with Developing Implications) (05-Apr-19) | - | 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) |

***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.*

## Contact us

### Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

### Analyst Contact
Name: Mr P. Sandeep
Tel: 044-2850 1000
Email: sandeep.prem@careratings.com

### Business Development Contact
Name: Mr. V. Pradeep Kumar
Contact no.: 2850 1001
Email ID: pradeep.kumar@careratings.com

**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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