Paragon Polymers Private Limited

March 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	31.34 (reduced from 52.98)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Re-affirmed**
Long-term/short-term Bank Facilities	181	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable / A Two)**	**Re-affirmed**
Short-term Bank Facilities	37 (reduced from 52)	**CARE A2 (A Two)**	**Re-affirmed**
Total facilities	**249.34 (Rs. Two Hundred Forty Nine crore and Thirty Four lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Paragon Polymers Private Limited (Paragon) 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 moderate financial risk profile marked by declining profitability, leveraged capital structure, working capital intensive nature of operations but comfortable debt coverage indicators. The ratings also factors in ongoing dispute within the board members over certain subcontract payments which were allegedly overcharged in vulnerability of profitability levels to volatility in raw material prices and highly competitive nature of the footwear industry.

Rating Sensitivities

Positive Factors

Sustained improvement in profitability margins along with Total Debt/ PBDIT to less than 2x and overall gearing less than 1x.

Negative Factors

Continued decline in profitability margins or deterioration in liquidity profile.

Adverse outcome of ongoing dispute affecting company's credit profile.

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. Paragon spends well on the

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

advertisement and sales promotion activities related to its brands. The group in general spends around 5-6% of its TOI on marketing campaigns

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
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 19% of the total sales during FY19. 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

Moderate financial risk profile
Paragon's sales increased from Rs. 1309 crore in FY18 to Rs. 1749 crore in FY19 on back of increase geographical presence and number of dealers. However, the PBDIT margins continues to decline from 6.36% in FY18 to 5.53% in FY19 on account of increase in RM prices and expense of Rs. 12.8 crore booked for liability accepted under amnesty scheme of Government of Gujarat VAT department. Overall gearing deteriorated slightly from 1.02x as on Mar'18 to 1.15x as on Mar'19. Deterioration in gearing was on account of increase in LT loan of Rs. 132 crore during FY19 but was partly utilized for reduction in CC outstanding amount.
Qualifications in 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 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 Kochi) 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. Further, the auditors have also stated that it may not be possible to make any determination on whether fraud has occurred on the company
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.
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.
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.

Liquidity: Adequate

The company generally holds higher inventory especially of finished goods at its depots to meet its demands and ensure continuous supply. The demand is seasonal to an extent with increased sales during the month of April to June and again during the festive season of Diwali. The average collection period for Paragon was at 13 days during FY19 and average creditor period was 44 days. The company provides a maximum credit period of 30 days and generally receives payments within 2 weeks. Company's liquidity is also aided by cash accruals in the range of Rs. 55-60 crore as against debt repayments of Rs. 20-25 crore. Further, post receipt of loans and advances from group companies, CC utilization levels have also come down

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 Pvt. Ltd. and Elastrex Polymers Pvt. Ltd. During FY18, from October 1, 2017, the group decided to carry on the entire operations (manufacture and sale) under a single entity (Paragon).

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-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.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1309.1	1749.6
PBILDT	83.29	96.75
PAT	38.52	30.76
Overall gearing (times)	1.02	1.15
Interest coverage (times)	9.42	4.40

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	ISIN	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	-	-	-	-	37.00	CARE A2
Fund-based - LT-Term Loan	-	-	-	March 2021	31.34	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+; Stable / CARE A2 (19-Jun-19) 2)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	37.00	CARE A2	1)CARE A2 (19-Jun-19) 2)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	31.34	CARE BBB+; Stable	1)CARE BBB+; Stable (19-Jun-19) 2)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)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Working capital limits	Detailed explanation
A. Financial covenants	Not stipulated
B. Non financial covenants	Drawings to be permitted within available Drawing Power

	Company to obtain prior approval from Bank before repaying the unsecured loan of Rs. 80 crore availed from sister company

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:

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