Paragon Polymer Products Private Limited

March 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	69.01 (enhanced from 9.65)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	181.00 (enhanced from 131)	**CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)**	**Reaffirmed**
Short-term Bank Facilities	53.00 (enhanced from 43)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**303.01 (Rupees Three hundred and Three crore and One lakh only)**		

Details of rated facilities in Annexure - I

Rating Rationale

The ratings assigned to the bank facilities of Paragon Polymer Products Private Limited (PPPPL) continue to derive strength from the vast experience of the promoters & 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, highly competitive nature of the footwear industry.

Going forward, the ability of PPPPL to strengthen its market position, scale up operations, improve profitability margins while sustaining its comfortable capital structure and to manage its working capital requirements effectively would be key rating sensitivities.

Detailed description of key rating drivers

Key rating strengths

Experienced promoters and long operational track record of the Paragon group

The 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. EPPL was incorporated in 1988 with a manufacturing facility in Bangalore and PPPPL was incorporated in 1990. PIPL was incorporated later in 2000, with additional manufacturing facilities in Bangalore. The companies in the group are 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, the group has 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

The group has established a wide distribution network spread across the country. The group's distribution of footwear is networked through 18 depots across India along with a network of more than 450 distributors. Additionally, the group's network is strengthened with 25 retail stores spread across three states. The revenue of the group is distributed across the nation without much dependence on a particular region.

Diverse product portfolio

The 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, the group has

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

been concentrating on diversifying its product portfolio especially in the PU and EVA segments. From about 38% of the total sales value in FY13, 'hawai' now only accounts for about 26% of the total sales during FY17.

Key rating weaknesses

Susceptibility of margins to volatility in raw material prices
The main raw materials for the group 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 59% of the TOI in FY17. The profitability of the group is susceptible to the fluctuations in these price of these raw materials.

Working capital intensive nature of operations
The operations of the group are highly working capital intensive, predominantly due to the higher inventory holding period of about 3 months. The group holds higher inventory especially of finished goods at its depots to meet its demands and ensure continuous supply. However, the group's dependence on working capital borrowings is at a comfortable level when compared to its scale of operations.

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:
CARE has taken a combined view of the three entities of Paragon group viz. Paragon Polymer Products Private Limited (PPPPL), Preston India Private Limited (PIPL) and Elastrex Polymers Private Limited (EPPL) as all the three entities are owned and managed by common promoters, were engaged in similar line of business and sold their products under the same brand of 'Paragon' through a common distributor channel. Owing to re-organisation of business operations among the group entities that happened on October 01, 2017, the group started to carry out its entire manufacturing and selling operations under PPPPL while EPPL continues to manage the operations of retail stores operating under the group. Presently the, amount of sales through the retail stores is limited in relation to the combined size of operation of the group. EPPL and Preston will continue to hold the land on which these units would function and presently are debt free with the working capital limits from the bankers being paid off in full.

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. PPPPL, PIPL and EPPL 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 PPPPL and to carry out its retail store operations under EPPL. 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)	FY16 (A)	FY17 (A)
Total operating income	841.52	789.76
PBILDT	96.63	80.72
PAT	35.61	36.88
Overall gearing (times)	1.17	0.38
Interest coverage (times)	6.38	6.56

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

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.*

Analyst Contact:

Name: Harihara Subramanian
Tel: 044-28490876
Mobile: 97899 98514
Email: harihara.subramanian@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

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 A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	53.00	CARE A2+
Fund-based - LT-Term Loan	-	-	March'21	69.01	CARE A-; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	181.00	CARE A-; Stable / CARE A2+	-	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	53.00	CARE A2+	-	1)CARE A2+ (15-Mar-17) 2)CARE A2 (12-Apr-16)	-	-
3.	Fund-based - LT-Term Loan	LT	69.01	CARE A-; Stable	-	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)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691