# Purple Products Private Limited

July 07, 2020

**Ratings**

| **Facilities** | **Amount (Rs. Crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Long Term Bank Facilities – Fund Based Limits | 17 | **CARE BBB-; Stable (Triple B minus; Outlook: Stable)** | Assigned |
| Short Term Bank Facilities – Fund Based and Non Fund Based Limits | 83 | **CARE A3 (A Three)** | Assigned |
| **Total Facilities** | **100 (Rupees One hundred crore only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The rating assigned to the bank facilities of Purple Products Private Limited (PPL) derive strength from long track record of promoters, well established and diversified clientele base of industrial users, Volume backed growth in total operating income (TOI) during FY19 and conservative risk management policy resulting in stable PBILDT margins; albeit marginal decline in FY20 and improving ROCE. The rating strengths are however tempered by the company's small size of operations, moderate capital structure with weak debt coverage ratios, working capital intensive nature of operations, and limited supplier base.*

*Rating Sensitivities*

*Positive Factors*

- Total Operating Income more than Rs.750 crore
- Overall Gearing below 1.10x on sustained basis
- Operating cycle less than 40 days on sustained basis
- Net Working Capital at more than 40% of total current assets, on sustained basis.

*Negative Factors*

- PBILDT margin falling below 3.25%
- Current ratio below 1.15x

***Detailed description of the key rating drivers***

**Key Rating Strengths**

***Experienced promoter group and long track record of the firm***

Purple Products Private Limited (PPL) was incorporated in 2004 and is in the business of trading in non-ferrous metals (Tin, Lead, Zinc, Mercury, etc.) ever since. Mr. Niranjan Ramswaroop Upadhyaya (B.Com.), aged 73 years, is one of the promoter directors of PPL and has extensive experience of over five decades in metal trading industry. Mr. Niranjan floated his proprietorship company in 1985, supplying base metals to domestic industrial users. He is supported by his two sons - Mr. Jitin N. Upadhyaya (MBA), aged 43 years and Mr. Nitin N. Upadhyaya (MBA), aged 42 years, who have around two and half decade of experience in metal trading business. As a result of extensive experience of its promoters in the business of trading of metals, the company has an established business relationships with large corporates as well as diverse end users across India. PPL expanded its global footprint by acquisition of one of its suppliers - White Gold Pte. Ltd. (WGPL), Singapore, in 2015. WGPL, along with Purple Group, has been an approved buyer with PT Timah since long, and its acquisition has further helped the group in enhancing backward integration, thereby providing operational efficiency to the group.

***Volume backed growth in total operating income (TOI) during FY19; albeit operating profit margin remained subdued***

During FY19, PPL reported growth of ~9% in TOI to Rs.394 crore in FY19 (PY: Rs.360 crore). The growth in TOI was largely driven by increase in the sales volume of its key products - Tin, Lead, Zinc and Mercury. PPL has thin profitability margins on account of trading nature of the business, conservative risk management policies and high interest expenses pertaining to working capital bank borrowings. PBILDT margin improved in FY19 to 3.69% (PY: 3.29%). PAT margin decreased by 33 bps in

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

FY19 to 1.09% (PY: 1.42%). As per FY20 provisional financials, PPL reported total revenue and PBILDT of around Rs.475 crore and Rs.17 crore. The PBILDT margin, however, remained subdued during the same period on account of subdued sales volume in Q4-FY20.

***Well established and diversified clientele base on account of comprehensive product portfolio***

With more than one and half decade of track record in the metal trading business, PPL has established healthy and long term relationships with the industrial end users ensuring repeat orders. It has a client base of 350+ customers, pertaining to chemical, pharma, manufacturing, IT hardware sector, etc. The top-10 customers contribute around 40-45% to PPL's revenue over the years. The company has a comprehensive products portfolio and it deals in Tin, Lead, Zinc, Mercury, Cadmium, Selenium, etc.

***Conservative Risk Management Policy***

PPL follows a conservative risk management policy, where in it hedges almost the entire quantum of its purchases/ sales against commodity price risk and FX price fluctuation risk. As a result of the same, the PBILDT margins have remained largely stable. The PBILDT margin was 3.69% in FY19 (PY: 3.29%). During FY20 (UA), PPL reported a TOI of Rs.475 crore and PBILDT margin stood at 3.50%, witnessing a marginal decline of 19 bps on Y-o-Y basis. ROCE improved from 13.35x during FY18 to 13.65x during FY19 and further to 14.82x during FY20.

**Key Rating Weaknesses**

***Modest scale of operations***

Although the company's revenue has been increasing at CAGR of 12% since FY17, however, PPL's scale of operations continue to remain modest, as reflected in the total revenue of Rs.394 crore during FY19 and Rs.475 crore during FY20, with tangible net worth of Rs.38.29 crore as on March 31, 2019 and Rs.44.05 crore as on March 31, 2020.

***Moderate capital structure and weak debt coverage ratios***

PPL's financial risk profile is marked by moderate capital structure and weak debt coverage indicators. The company mainly depends on bank borrowings to fund its working capital requirements. Overall gearing ratio continued to be moderate at 1.73x as on March 31, 2019 (vs PY: 1.68x), primarily due to increased Creditors on LC/ Acceptances, in line with increased sales and trading nature of business. Despite improvement in PBILDT margin in FY18, the PBILDT interest coverage ratio continued to remain on the declining trend. The PBILDT interest coverage declined from 3.31x in FY18 to 2.03x in FY19 and further to about 1.68x in FY20 (Provisional) led by higher interest cost. However, it is to be noted that finance cost comprises of FX translational loss (notional) amounting to Rs.4.76 crore during FY20 (PY: 3.27 crore); adjusting for the same, the adjusted PBILDT interest coverage ratio was at 3.23x in FY20, as compared to 3.73x in FY19. Moreover, total debt to adjusted gross cash accrual improved from 8.02x in FY18 to 7.28x in FY19 and further to 5.47x during FY20.

***Working capital intensive operations***

PPL has to maintain high level of inventory of around 45 days to service its clients. Further, it also extends an average credit period of around 45 days to its buyers. This results in working capital intensive operations with high reliance on bank borrowings. The average inventory holding period had risen from 24 days to 27 days in FY18, to about 48 days in FY19, owing to government regulation changes in Indonesia, consequently making PT Timah TBK sole entity to export Tin from Indonesia and also exports from single port Muntok, resulting in increased transit time. The average collection period also rose from about 37 days in FY17 and FY18 to about 48 days in FY19, owing to execution of large orders towards the end of the financial year. In view of the above the operating cycle for FY19 deteriorated to 58 days in FY19 from 45 days in FY17. During FY20 (Provisional) the inventory days and collection days showed a marginal improvement and the operating cycle remained stable during FY20. Average utilization of its working capital bank limits (fund based and non-fund based) was at 79%, over 12 month period ending April 30, 2020, so as to support increasing scale of operations.

***Limited supplier base***

PPL has high supplier concentration risk as during FY20, around 82% of the purchases were made from a single supplier group. Although, higher dependence on single supplier, exposes PPL to supplier concentration risk, comfort is derived from the fact that PPL has around 15 years of established relationship with the same supplier group.

***Impact of Pandemic COVID-19***

Unprecedented measures taken by India as well as key global markets to control the spread of the novel corona virus (COVID-19) pandemic has significantly impacted the entire Indian economy. While considerable relaxations have been given by the government now, the duration of lockdown related restrictions and its overall impact on the industry remains a key monitorable. CARE believes that despite these relaxations to resume commercial operations, lockdown lasting for more than 2 months, to control the spread, may exert pressure on the company's revenues and profitability in the near to medium term.

**Liquidity analysis -** Adequate

PPL's liquidity position remains adequate given the fact that the company has no term loan except for vehicle loan which was less than Rs.1.5 crore as at March 31, 2020 and the average utilization of bank facilities for the past 12 months ending April 30, 2020 was 79%. Further, PPL had unencumbered cash and bank balance at ~Rs.3 crore on March 31, 2020. Also, promoters and related parties have provided liquidity support to the company as and when required, and unsecured loans from promoters and related parties stood at around Rs.7 crore as on March 31, 2020.

**Analytical approach:** Consolidated*****

******For arriving at the ratings, CARE has considered the audited consolidated financial statements published in FY19 annual report due to operational and financial linkages, similar line of business and common promoter. PPL had two subsidiaries namely 1) White Gold Pte. Ltd. (WGPL), and 2) EMES Fabrication Private Limited (EMES).*

**Applicable Criteria**

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Short-term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating Methodology: Consolidation and Factoring Linkages in Ratings
CARE's policy: Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Wholesale Trading

**About Purple Products Private Limited**

Established in 2004 by members of Upadhyaya family, PPL trades in non-ferrous metals. The company is involved in importing and trading of products like Tin, Lead, Zinc, Mercury, Selenium, Cadmium, Arsenic etc. These metals are sold to customers across automobile, electronics, battery manufacturing, chemical and pharma sectors in India. The company has its head office in Mumbai with warehouses across India.

| Brief Financials - PPL (Rs. crore) | FY18 (A) | FY19 (A) | FY20 (UA) |
|---|---|---|---|
| Total operating income | 360.40 | 394.19 | 474.70 |
| PBILDT | 11.86 | 14.53 | 16.61 |
| PAT | 5.13 | 4.31 | 4.03 |
| Overall gearing (times) | 1.68 | 1.73 | 1.27 |
| Interest coverage (times) | 3.31 | 2.03 | 1.68 |
| Adjusted interest coverage (times) | 4.67 | 3.73 | 3.23 |

*A: Audited; UA: Unaudited*

**Status of non-cooperation with previous CRA:** NA

**Any other information:** Nil

**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-Working Capital Limits | - | - | - | 17.00 | CARE BBB-; Stable |
| Fund-based/Non-fund-based-Short Term | - | - | - | 83.00 | CARE A3 |

**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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Working Capital Limits | LT | 17.00 | CARE BBB-; Stable | - | - | - | - |
| 2. | Fund-based/Non-fund-based-Short Term | ST | 83.00 | CARE A3 | - | - | - | - |

***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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