

## Rating Rationale

### Brickwork Ratings reaffirms 'BWR A4' for the Bank Loan Facilities aggregating ₹ 8.74 Cr of P & P Overseas

Brickwork Ratings has *reaffirmed* the following **Rating<sup>1</sup>** for Bank Loan facilities sanctioned by *Union Bank of India* to P & P Overseas (*the 'Firm'*)

Facility	Limits (₹ Cr)	Tenure	Rating
Packing Credit	5.00	Short Term	<b>BWR A4</b> (Pronounced BWR A Four )  <b>[Outlook : Stable]</b>
FDBP/FUDBP	3.50		
Bank Guarantee	0.24		
<b>Total</b>	<b>8.74</b>	<b>INR Eight Crores &amp; Seventy Four Lakhs only</b>	

(As the term loan has been repaid, long term rating does not apply)

The rating takes in to account the facts that the Firm has prepaid its term loan; slight underperformance in meeting FY13 projected figures, moderate increase in sales in FY14 and slight deterioration in gearing ratio.

The rating continues to factor, inter alia, experience of the proprietor and the repeat orders received from its customers. However, the rating remains constrained by constitution of the entity, low scale of operations, intense competition present in this sector and volatility in the price of raw materials.

#### Background:

P & P Overseas is a proprietary firm established by Mr. Rohit Narang in 2001. The Firm is a manufacturer and exporter of paper products such as paper bags, corrugated boxes and cartons. The manufacturing plants are located at Manesar and Naraina. The Firm derives around 80% revenue from paper bags and the rest from sale of corrugated boxes and cartons. It is also diversifying in the field of paper glass, cups and tubs for ice cream & ready to eat for international & domestic market buyers for which it has imported machines. The firm currently has a total of about 500 employees (including permanent and part time staff).

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

### Industry Overview:

Flourishing organized retail in recent years, has boosted the demand for paper bags, corrugated boxes and cartons

Low technology requirement and low capital intensity in the paper bags and corrugated box industry has led to large number of players entering the industry, thereby causing intense competition.

According to Federation of Corrugated Box Manufacturers (FCBM), currently there are more than 4000 players in the market.

Price of paper, the key raw material that goes into production of paper bags and corrugated boxes has been spiralling in recent times due to shortage of wood pulp and waste paper.

Recovery of used paper bags and corrugated boxes is still very low and small players still depend on import of waste paper.

### Financial Performance:

As per FY14 Provisionals, the total operating income has increased to ₹17.51 Cr from ₹ 16.19 Cr in FY14, with operating profit margin of ₹2.9 Cr and net profit margin of ₹0.54 Cr. The Firm's tangible net-worth stood at ₹ 4.70 Cr and total external debt at ₹13.18 Cr for FY14. The net cash accruals to total debt of the Firm stood at 0.10 times in FY14.

### Rating Outlook:

P & P has seen moderate increase in sales along with stable profit margins and is backed by an experienced promoter. However, the rating is constrained by low scale of operations and relatively low net worth, intense competition and volatility in the price of raw materials. Going forward, increasing the scale of operations while maintaining profit margins, retaining and enhancing their customer base and prudently managing working capital requirements will be the key rating sensitivities for the Firm.

<b>Analyst Contact</b>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
<b>1-860-425-2742</b>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

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