RATING RATIONALE **15 Sept 2020**

Panem Industries Pvt. Ltd.

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹32.72 Crs of Panem Industries Pvt. Ltd.

Particulars:

Facility**	Previous Amount (₹ Cr)	Present Amount Rated (₹ Cr)	Tenure	Previous Rating (Jun, 2019)	Rating* Assigned
Fund Based	33.27	31.22	Long Term	**BWR BBB-** Stable	**BWR BBB-** Negative **[Reaffirmation]**
Non-fund Based	1.50	1.50	Short Term	**BWR A3**	**BWR A3** **[Reaffirmation]**
Total	34.77	32.72	**INR Thirty Two Crores and Seventy Two Lacs only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of facilities given in Annexure I.

RATING ACTION / OUTLOOK

BWR has reaffirmed the ratings of BWR BBB-/A3 for Panem Steels Private Limited (PSPL). However, the outlook has been revised from stable to negative owing to wide variation in the company's absolute profitability in FY19 and FY20 as compared to previous provisional and projected financials coupled with significant downward revision in FY21 projections as compared to the previous projections. Furthermore , in the wake of Covid-19 pandemic, the weak demand and oversupply is likely to result in suppressed steel prices and capacity utilization in the near term. Since, India depends largely on migrant labour, restarting construction and infrastructure projects at full pace could be a challenge. The negative outlook also takes into account the elongation in PSPL's working capital cycle in FY20 (on a provisional basis).

The ratings reaffirmation however, is underpinned by marginal improvement in profitability margins and financial risk profile in FY20(Provisional) vis-a-vis FY19 while ratings are constrained due to highly competitive and fragmented nature of industry.

For assigning the rating ,BWR has relied upon the last 3 years of audited financials till FY19, FY20 provisional numbers and projections of FY21 & FY22 , publicly available information and clarifications provided by management.

KEY RATING DRIVERS
Rating Strengths:

- **Improved profitability and increased focus on higher margin products**:- Since FY20, the company is focussing on high margin products such as MS Bar , tube mills , shapes and sections to improve profitability and provide value added products. In FY20 (provisional) the total operating income declined to Rs. 208.50 Crs as compared to Rs. 275.80 in FY19. The reason for decline in sales is that in FY 2019 the company had manufactured a higher proportion of ingots & billets which are low value items.The YTD FY21 turnover as on 20-08-2020 stood at Rs. 46.00 Crs. There were almost negligible sales in Apr and May, 2020 due nationwide lockdown. However , with easing of lockdown with stipulated restrictions , the company has started clocking a turnover of over Rs. 20.00 Crs per month from June, 2020 onwards the company is expected to achieve the projected turnover of Rs. 212.78 Crs in FY21. The company's profit after tax improved from Rs. 1.69 crs in FY19 to Rs. 2.15 Crs in FY20 (on a provisional basis). The company has reported a marginal improvement in profitability margins. Net profit margin and operating profit margin for the company stood at 1.03 % and 3.77 % respectively during FY20 (on a provisional basis), driven by increased focus of value added products and marginal decline in finance costs.

- **Extensive experience of promoters:-** More than three decades of experience of promoter, Mr. Pravin Nemani in the business of steel manufacturing with a diversified management in terms of experience and age, long-term relationships with key customers support the business profile.

- **Comfortable net worth & adequate debt protection metrics** :- In FY20 (provisional), the company had a moderate tangible net worth of Rs. 35.29 Crs on account of accumulated profits. Gearing of 1.12x , ISCR (interest Service Coverage Ratio) of 2.28x, DSCR (Debt Service Coverage Ratio) of 1.22x and current ratio of 1.37x with each of these parameters having marginally improved as compared to the preceding year FY19, indicates a moderate financial risk profile of the company.

Rating Weaknesses:-

- **Vulnerability to fluctuations in input prices; fragmented and competitive industry:** The steel industry in India is characterised by intense competition and fragmentation, with the presence of a large number of units, because of low entry barriers. This restricts the ability of players to pass on any increase in the raw material prices to customers. Therefore, any sharp increase in input prices is likely to have a significant impact on the profitability of the companies operating in the sector.

- **Very Thin Profitability Margins** :- The company's cash flows and profitability is directly exposed to volatility in the input prices. The operating profit margin in FY20 (provisional) stood at 3.77% with a net profit margin at 1.03 % with a marginal improvement from 2.75% and 0.61% in FY19.

- **Elongated Working Capital Cycle :-** The working capital cycle for the company increased from increased from 53 days in FY19 to 71 days to FY20(Prov), primarily due to stretched receivables from 44 days in FY19 to 62 days in FY20 (Prov) owing to delays in payments from customers due to nation wide lockdown announced in the wake of Covid-19 pandemic.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA : BWR has assessed the company on a standalone basis. Please refer to the applicable criteria at the end.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, if the company's scale of operations and profitability improve on a sustained basis.
Negative: BWR may revise the ratings downwards, if there is a deterioration in company's revenue, profitability and liquidity.

Liquidity analysis (adequate) -
The company generated an internal cash accrual of Rs. 3.53 Crs in FY19 against a CPLTD (current portion of long term debt) of Rs. 2.59 Crs, while in FY20 (on a provisional basis) the company is estimated to have generated an internal cash accrual of Rs. 4.02 Crs against CPLTD of Rs. 2.69 Crs for the year , which has been successfully paid. While in FY21 , the company is estimated to generate Rs. 4.62 Crs of internal cash accruals with no committed repayment obligations , as of now. However, the average fund based limit utilization for the last 12 months stands at 95% of the sanctioned limit.
The current ratio stood at 1.16 in FY19 and 1.37 in FY20 (on a provisional basis) .

About the Company:-
Established in the year 1990, Panem Industries Private Limited (PSPL) is a private limited company having its manufacturing facilities in Gudhrauli village of Fatehpur district in Uttar Pradesh. The unit started its production in 1995. The Company is engaged in manufacturing of Mild Steel(MS) ingots, Hot Rolled(HR) strips, HR skelps, MS pipes, MS profile sections and scaffolding. It manufactures ERW steel pipes from ½" to 4" as per Indian and international standards.

Key Financial indicators

Key Parameters	Units	FY18	FY 19	FY 20
Result Type		**Audited**	**Audited**	**Provisional**
Total Operating Income	Rs in Crs	**221.75**	**275.80**	**208.50**
EBITDA	Rs in Crs	**10.39**	**7.58**	**7.87**
Net Profit	Rs in Crs	**4.19**	**1.69**	**2.15**
Tangible Net Worth	Rs in Crs	**29.20**	**33.14**	**35.29**
Total Debt/TNW	Times	**1.37**	**1.19**	**1.12**
Current Ratio	Times	**1.22**	**1.16**	**1.37**

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED -*There are no Key covenants*

NON-COOPERATION WITH PREVIOUS RATING AGENCY , IF ANY - NA

RATING HISTORY FOR THE LAST 3 YEARS(INCLUDING WITHDRAWN/SUSPENDED)

SL No		Instrument /Facility	Current Rating (Sep, 2020)			Rs. in Crs.						
			Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Jun, 2019			Aug , 2018	Apr, 2017		
1	Bank Loan	FB	Long Term	31.22	BWR BBB- Negative [Reaffirmation]	FB	33.27	BWR BBB- Stable [Reaffirmation]	Rating Not Reviewed	FB	35.00	BWR BBB- Stable
2	Bank Loan	FB	Short Term	1.50	BWR A3 [Reaffirmation]	FB	1.50	BWR A3 [Reaffirmation]	Rating Not Reviewed	FB	3.30	BWR A3
		Total		32.72	**INR Thirty Two Crores and Seventy Two Lacs only**							

COMPLEXITY LEVELS OF THE INSTRUMENTS
For more information , visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

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Panem Industries Pvt. Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1)	State Bank Of India	Cash Credit	31.22	-	31.22
		Bank Guarantee	-	1.50	1.50
Total			**31.22**	**1.50**	**32.72**

Total **INR Thirty Two Crores and Seventy Two Lacs only**

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