

## Rating Advisory

June 29, 2019 | Mumbai

### Pact Industries Limited

#### Advisory as on June 29, 2019

This rating advisory is provided in relation to the rating of Pact Industries Limited

The key rating sensitivity factors for the rating include:

- Profitability
- Working capital management
- Capital expenditure plans and their funding
- Outcome of fluctuations in raw material prices

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Pact Industries Limited (PIL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If PIL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About the Company

Established in 1990 by Mr Avtar Singh and Mr Harpreet Singh, Punjab-based PIL is a public limited company listed on the Bombay Stock Exchange. It manufactures and trades in knitted fabric and also steel and iron rods and ingots. Products are sold to local customers.

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## Rating Rationale

September 20, 2018 | Mumbai

### Pact Industries Limited

*Ratings migrated to 'CRISIL BB/Stable/CRISIL A4+'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.12 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BB/Stable (Migrated from CRISIL BB/Stable ISSUER NOT COOPERATING**)</b>
<b>Short Term Rating</b>	<b>CRISIL A4+ (Migrated from CRISIL A4+ ISSUER NOT COOPERATING**)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

\*Issuer did not cooperate; based on best-available information

#### Detailed Rationale

Due to inadequate information, CRISIL, in line with Securities and Exchange Board of India guidelines, had migrated its ratings on the bank facilities of Pact Industries Limited (PIL) to 'CRISIL BB/Stable/CRISIL A4+ Issuer Not Cooperating'. However, management has subsequently shared the requisite information necessary for carrying out a comprehensive review of the ratings. Consequently, CRISIL is migrating its ratings from 'CRISIL BB/Stable/CRISIL A4+ Issuer Not Cooperating' to '**CRISIL BB/Stable/CRISIL A4+**'.

The ratings continue to reflect the extensive experience of PIL's promoters in both the textiles and steel and iron industries, and moderate liquidity because of absence of any term debt obligation. These strengths are partially offset by working capital-intensive and modest scale of operations, and average financial risk profile.

#### Analytical Approach

Unsecured loans of Rs 2.43 crore as on March 31, 2018, from promoters are non-interest bearing and are expected to remain in business; hence, they have been treated as neither debt nor equity.

## Key Rating Drivers & Detailed Description

### Strengths

\* **Extensive experience of promoters:** Key promoters, Mr Avtar Singh and Mr Harpreet Singh, have been in the textiles segment for more than 25 years. Mr Avtar Singh previously managed Preet Hosiery Exports Ltd, which was later merged with PIL. His son, Mr Harpreet Singh, was individually handling Naresh Iron and Steel Pvt Ltd which also got merged to PIL. Promoters have established relationship with customers and suppliers.

\* **Absence of any long-term debt** supports liquidity, as cash accrual can be used to fund incremental working capital requirement.

### Weaknesses

\* **Working capital-intensive operations:** Gross current assets were high at around 117 days as on March 31, 2018, on account of receivables and inventory of 47 days and 64 days, respectively.

### \* Modest scale of operations in competitive segments:

Operating income was Rs 57.63 crore in fiscal 2018 and has remained subdued in the last five fiscals. This limits pricing flexibility and restricts bargaining power with suppliers and customers. It also constrains ability to achieve economies of scale.

### \* Average financial risk profile

Gearing was high at 2.19 times as on March 31, 2018, because of a small networth of Rs 6 crore. Debt protection metrics were moderate with interest coverage and net cash accrual to total debt ratios of 1.6 times and 0.07 time, respectively, for fiscal 2018.

### Outlook: Stable

CRISIL believes PIL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if increase in scale of operations while improving profitability results in a better financial risk profile, and if working capital cycle improves. The outlook may be revised to 'Negative' if financial risk profile weakens on account of lower-than-expected revenue and profitability, any further large, debt-funded capital expenditure, or more-than-expected increase in working capital requirement.

## About the Company

Established in 1990 by Mr Avtar Singh and Mr Harpreet Singh, Punjab-based PIL is a public limited company listed on the Bombay Stock Exchange. It manufactures and trades in knitted fabric and also steel and iron rods and ingots. Products are sold to local customers.

## Key Financial Indicators

As on / for the period ended March 31		2018	2017
Revenue	Rs crore	57.63	52.16
Profit after tax	Rs crore	0.33	0.17
PAT margins	%	0.6	0.3
Adjusted Debt/Adjusted Net worth	Times	2.19	2.02
Interest coverage	Times	1.68	1.42

## Status of non cooperation with previous CRA

PIL has not cooperated with Brickwork Ratings India Private Limited (Brickwork) which has Classified it as Non Cooperative vide release dated 28-Sep-2017. The reason provided by Brickwork is non-furnishing of information required for monitoring of ratings.

**Any other information:** Not applicable

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	9	CRISIL BB/Stable
NA	Letter of Credit	NA	NA	NA	2	CRISIL A4+
NA	Standby Letter of Credit	NA	NA	NA	1	CRISIL BB/Stable

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2018 (History)		2017		2016		2015		Start of 2015
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	9.00	CRISIL BB/Stable	29-05-18	CRISIL BB/Stable (Issuer Not Cooperating)*	24-02-17	CRISIL BB/Stable		--		--	--
Non Fund-based Bank Facilities	LT/ST	3.00	CRISIL BB/Stable/CRISIL A4+	29-05-18	CRISIL BB/Stable/CRISIL A4+ (Issuer Not Cooperating)*	24-02-17	CRISIL BB/Stable/CRISIL A4+		--		--	--

All amounts are in Rs.Cr.

\*Issuer did not cooperate; based on best-available information

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	9	CRISIL BB/Stable	Cash Credit	7	CRISIL BB/Stable/Issuer Not Cooperating
Letter of Credit	2	CRISIL A4+	Letter of Credit	4	CRISIL A4+/Issuer Not Cooperating
Standby Letter of Credit	1	CRISIL BB/Stable	Standby Letter of Credit	1	CRISIL BB/Stable/Issuer Not Cooperating
<b>Total</b>	<b>12</b>	<b>--</b>	<b>Total</b>	<b>12</b>	<b>--</b>

### Links to related criteria

[Framework for Assessing Information Adequacy Risk](#)

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[Rating Criteria for Fast Moving Consumer Goods Industry](#)

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