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ICRA upgrades long-term rating of Paragon Polymer Products Private Limited to LBBB+ with stable outlook

ICRA has upgraded the rating assigned to the Rs. 1.34 crore¹ term loans and Rs. 19.50 crore cash credit limits of Paragon Polymer Products Private Limited[†] (Paragon) to LBBB+ (pronounced L triple B plus) from LBBB (pronounced L triple B); the outlook on the long term rating is stable.

The rating upgrade takes into account the improvement in its financial risk profile owing to improved profitability, which is expected to be sustained in the medium term. The ratings outstanding continue to favourably factor the Paragon Group's² leading market position in the Indian hawaii chappals industry supported by an established brand with robust distribution network; stable demand for rubber hawaii chappals owing to their inherent low pricing points; and, the long track record of the promoters in the hawaii chappals industry. The ratings further favorably factor the demonstrated increase in operating income with moderate financial risk profile characterized by moderate gearing and adequate coverage indicators. The ratings are, however, constrained by the stiff competition in the industry from competitors as well as substitutable products; larger dependence of Paragon on revenues from hawaii chappals (over 90% in FY 2010) which yield lower margins; vulnerability of profits to fluctuations in raw material prices with lag in price revisions due to the inherent price-sensitive customer base; and the high working capital intensity resulting in its moderate liquidity position.

Company Profile

Paragon Polymer Products (Paragon) is part of the Paragon Group (Group), which is engaged in the manufacturing and marketing of footwear. The Group commenced operations in 1975, with a production capacity of 1500 pairs per day. After thirty five years, the Group today produces more than 300,000 pairs of footwear in a day. About 70% of the production comprises hawaii chappals, where the Group holds a dominant position in the Indian market. In the recent years, the Group has diversified into manufacturing Ethylene Vinyl Acetate, Polyurethane and Poly Vinyl Chloride based footwear thereby gradually increasing the customer base. Although the Group was earlier concentrated in Southern India, it has now successfully expanded into the Western and Eastern markets. Paragon has factories in Kottayam, Salem and Hyderabad. In July 2009, two partnership entities within the Group were merged into Paragon leading to an enhanced production capacity.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² Rating rationales of other Paragon Group entities (namely, Elastrex Polymers Pvt Ltd and Preston India Pvt Ltd) are available at ICRA's website www.icra.in.

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