

February 07, 2017

Prothom Industries India Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long term: NCD	15.00	[ICRA]BB- (Stable) / Assigned

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the rating of [ICRA]BB- (pronounced ICRA double B minus) for the Rs. 15.00 crore long term NCD facilities of Prothom Industries India Private Limited ('PIPL', 'The Company'). The outlook on the long term rating is stable. Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.

Rationale

The rating assignment takes into consideration healthy ramp up of operations in FY2016 and in current fiscal after the plant was commissioned in 2014 on account of addition of new products with Hasbro Inc along with anticipated addition of new client in current fiscal. The assigned ratings also takes into consideration the strong client profile with existing clients such as Hasbro Inc. and MGA Entertainment belonging to the list of the top 10 toy manufacturers in the world. Currently, the company has strong order book position of ~Rs. 105.00 crore from Hasbro and ~Rs. 31.00 crore from MGA Entertainment. PIPL expects to add two more clients – Jakks Pacific and Spin Master from FY2018 onwards and the same is expected to drive the revenue growth in near to medium term.

The ratings are however constrained by the tight liquidity profile on account of increasing working capital requirement in line with robust growth in the turnover of PIPL. The working capital is currently funded by extended credit received from the suppliers which remains a major concern for the company. However, in current fiscal the company has enhanced the working capital limits which along with NCDs is expected to provide some comfort to the liquidity profile of the company. The company has raised NCD worth Rs. 6.00 crore through tranche A in December 2016, and is planning to raise another NCD of Rs. 4.00 crore. As a precondition for raising NCD, PIPL is required to raise fresh equity of Rs. 10.00 crore and failure to do the same can result in acceleration of NCD payments and/or penal interest. The ability of PIPL to raise this fresh equity within the stipulated timeline remains to be seen. The capital structure remains leveraged with moderate coverage indicators, and the same is expected to deteriorate with increase in working capital loan and NCDs along with debt funded capex over near future to increase the manufacturing capacity. PIPL faces significant customer concentration risk with almost all of FY17 sales coming from single client though addition of new clients as reflected in order book will provide some diversification.

Key rating drivers

Credit Strengths

- Robust revenue growth in current fiscal on account of addition of new products with Hasbro Inc along with addition of new clients; profitability is expected to improve in near term with increase in scale of operations
- Strong client profile (Existing as well as prospective clients) with majority of clients are in worlds top 10 toy manufacturer list
- Strong order book position resulting in better revenue visibility for near to medium term

Credit Weakness

- Tight liquidity profile on account of increasing working capital requirement in line with robust growth in turnover; working capital funded by extended credit received from suppliers; however enhanced working capital limits expected to provide some comfort
- Requirement to raise fresh equity of Rs. 10.00 crore before February 28, 2017; the failure to raise this equity would give the investors the right to ask for prepayment of due amount in whole or part
- High client concentration risk as 100% revenue is coming from single client though the company has recently added another client, and in process of adding two new clients though majority of revenue will continue to come from Hasbro Inc
- Leveraged capital structure and moderate coverage indicators; the same is expected to deteriorate with increase in working capital loan and NCDs along with debt funded capex in near term to increase the manufacturing capacity

Sensitivities

- Timely raising of fresh equity of Rs. 10.00 crore, the failure of doing which would give the current investor the right to ask from the company to prepay the amounts due in whole or part
- Effective working capital management going forward
- Timely completion of proposed capital expenditure coupled with effective capacity utilization

Description of key rating drivers highlighted above:

PIPL is engaged in contract manufacturing for global toy companies. Currently it is dealing with a single client, Hasbro Inc. which is one of the top ten toy manufacturers in the world. The company has entered into an agreement with another client, MGA Entertainment. Two more clients are expected to come on board over near to medium future. PIPL thus exerts strong client profile with most of the clients belonging to the list of world's top 10 toy manufacturers. Growing business relations with the client have resulted into strong order book position which gives better revenue visibility for the company. The orders are placed at the beginning of every calendar year, and they comprise approved orders as well as potential orders. While approved orders give clear revenue visibility over the year, potential orders highlight the growth prospects over near to medium term for the company.

As PIPL is currently under expansion phase, the company is marked by tight liquidity position on account of increasing working capital requirement. However, enhanced working capital limits are expected to provide some comfort going forward. The capital structure remains leveraged with moderate coverage indicators, and same is expected to deteriorate with increase in working capital funds and NCDs along with debt to be availed towards capital expenditure in order to increase the manufacturing capacity. Further, clauses concerned with raising the NCD require the management to raise a fresh equity of Rs. 10.00 crore before February 2017. This is also the pre-condition for raising the "tranche B" NCD which is anticipated to be raised before FY2017 concludes. The failure of the company to raise this fresh equity would give the existing investors the right to ask from the company to prepay the amounts due in whole or part. The company has so far raised "tranche A" of NCD worth Rs. 6.00 crore in December 2016. At the moment, the capability of PIPL to raise fresh equity within the timeline remains to be observed. Also, the company currently has high dependence on third party vendors for job works such as moulding and painting, though the management plans to raise an in-house moulding unit to save costs going forward.

Analytical approach:**Links to applicable Criteria**

[Corporate Credit Ratings: A Note on Methodology](#)



About the Company:

Established in 2014, PIPL is a contract manufacturer of toys for the global toy industry. Its plant is situated at Dighi (Pune). The company primarily engages into assembling of toys at its plant, while activities such as moulding and painting are outsourced to vendors certified by the customers. Hasbro Inc. is the single customer that the company currently caters to, and is one of the world's largest toy manufacturers. The company started with manufacturing 2 products for Hasbro, and currently manufactures around 8 products for the client, with another 7-8 products in pipeline. In January 2016, PIPL received award for successful production and supply of 1 million Strongarm toys to Hasbro. It has also received the prestigious 'Best Emerging Partner' Award in December 2015 for its association with Hasbro Inc. Going forward, the company anticipates more customers to engage with, and plans to expand its manufacturing capability in order to cater to the additional demand.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last two years:

Table: Rating History

Sr. No.	Name of Instrument	Current Rating		
		Type	Rated amount (Rs. Crore)	Month-year & Rating
				February 2017
1	NCD	Long Term	15.00	[ICRA]BB- (Stable)

Complexity level of the rated instrument:

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

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Interest rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
NCD	December 2016	15.00%	December 2019	6.00	[ICRA]BB- (Stable)
NCD (Proposed)	-	-	-	9.00	[ICRA]BB- (Stable)

Source: PIPL

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