

Peel - Works Pvt. Ltd. ^{Revised}

April 26, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fully Convertible Debentures	06.00	[ICRA]BB-(Stable); Assigned
Total	06.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in the proven experience of Peel - Works Pvt. Ltd.'s ('PWPL') promoters in consumer-packaged goods industry, its professional management set up and its ability to attract substantial investments from reputed venture capital funds since its inception.

The rating, however, is constrained by the company's weak financial profile characterised by modest revenue growth over past five years and significant operational losses, with the firm yet to achieve breakeven in majority of its products owing to high employee expenses and marketing discounts resulting into negative cash accruals and thereby, causing erosion in net worth-base. Furthermore, the rating takes into account the high customer concentration risk with Hindustan Unilever Limited alone contributing to 80.0% of PWPL's revenues in FY2018. Moreover, the rating takes into consideration the elongated receivables of PWPL with debtor days at 113 and 150 in FY2018 and 7MFY2019 respectively owing to its low bargaining power with its customers.

Outlook: Stable

ICRA expects PWPL to benefit from the extensive experience of its promoters in the IT and CPG industry. The outlook may be revised to Positive if the firm ramps up its business and is able to cut down its operating losses. The outlook may be revised to Negative in case of any delay beyond the anticipated timelines for achieving cash break even or in case of delay in ramp up of operations.

Key rating drivers

Credit strengths

Extensive experience of promoters in IT and CPG industry – PWPL was incorporated in 2009 and its operations are being managed by Mr. Sachin Chhabra, who holds a post graduate diploma from XLRI Jamshedpur and has had a corporate stint of 14 years with Hindustan Unilever Limited. Other key personnel of the company include members with MBA degree from reputed institutions with experience of more than a decade in the IT and CPG industry.

Substantial investments made by reputed venture capital funds – PWPL has raised substantial investments from reputed investors in the venture capital space such as Indian Angel Network, Chiratae Ventures, International Data Group Ventures India, Unilever Holdings, Equanimity Investments and HDFC Bank, in the form of compulsorily convertible cumulative preference shares (CCCPS) and compulsorily convertible debentures (CCDs) for expansion of its service offerings. The company's ability to receive regular capital infusion will remain critical to support its loss-making operations.

Credit challenges

Weak competitive position led by modest scale of operations and unestablished brand – PWPL’s scale of operations have remained modest with the company registering operating income of Rs 26.15 crore and Rs 42.54 crore in FY2018 and FY2019 respectively. Furthermore, the company is still in its nascent stages and is yet to establish its brand, thus leading to modest competitive position in the market.

Operating losses and negative cash accruals leading to erosion in net worth – Due to high employee expenses and heavy discounts offered to its customers, PWPL has not been able to achieve breakeven in majority of its products and its profitability has remained negative over the years with operating losses of -22.24% and -33.1% reported in FY2018 and 7MFY2019 which have led to negative cash accruals resulting into erosion of the company’s tangible net worth.

High customer concentration risk –The company has had a high dependence on Hindustan Unilever Limited which is its major customer for its products ‘1SF’ and ‘Athena’ and contributed to 80.0% of the revenues in FY2018. However, the company’s ability to increase the revenue share of its third product ‘Taikee’, which caters to a diversified customer base, is expected to reduce the customer concentration risk to an extent.

Elongated receivables due to low bargaining power with its customers – PWPL’s customers include well established and reputed CPG companies with whom the company has a low bargaining power due to which it has not been able to collect its receivables in timely manner leading to high debtor days at 113 and 150 in FY2018 and 7MFY2019 respectively.

Liquidity position

PWPL had no external term loans on its books and had a free cash balance of Rs 0.42 crore as on October 31, 2018. The company has limited cushion available in the form of undrawn working capital limits since they have not availed any working capital facility from the bank except for Rs 1.00 crore of overdraft facility; ICRA foresees concerns on liquidity given the losses made by the company and dependence on external funding for continuation of its operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Peel - Works Pvt. Ltd. was set up in September 2010 by Sachin Chhabra (ex-HUL) as a ‘Software as a Service’ (SaaS) and big-data analytics company focused on the general trade (mom-and-pop retail) channel. Its headquarters is located at Gurugram. The company also has offices across different locations in India including Mumbai, Pune and Bengaluru. The company provides software products to retailers, distributors and consumer-packaged goods (CPG) companies.

In FY2018, the firm reported a net loss of Rs 7.46 crore on an OI of Rs 26.15 crore. Furthermore, as per 7MFY2019 provisionals, the firm reported a net loss of Rs. 7.36 crore on an OI of Rs. 19.19 crore

Key financial indicators (audited)

	FY2017	FY2018	7MFY2019
Operating Income (Rs. crore)	21.71	26.15	19.19
PAT (Rs. crore)	-0.58	-7.46	-7.36
OPBDIT/OI (%)	2.2%	-22.2%	-33.1%
RoCE (%)	-4.2%	-56.8%	-121.3%
Total Debt/TNW (times)	0.08	0.00	0.07
Total Debt/OPBDIT (times)	1.84	0.00	-0.04
Interest Coverage (times)	3.34	-84.12	-167.62

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2019	Date & Rating in FY20189	Date & Rating in FY2017
1	Fully Convertible Debentures	Long Term	6.00	6.00	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fully Convertible Debentures	April-2019	0.1%	April-2029	06.00	[ICRA]BB- (Stable)

Source: Peel - Works Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Corrigendum:

- Revision in heading on page 1: The company name was changed from 'Peel – Works Private Limited' to 'Peel - Works Pvt. Ltd.'
- Revision in caption on page 1: The company name was changed from 'Peel – Works Private Limited' to 'Peel - Works Pvt. Ltd.'
- Revision in company name under the section '**Rationale**': The company name was changed from 'Peel – Works Private Limited' to 'Peel - Works Pvt. Ltd.'
- Revision in source of Annexure 1: The company name was changed from 'Peel – Works Private Limited' to 'Peel - Works Pvt. Ltd.'

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Rupa Pandey

+91 22 6114 3456

rupa.pandey@icraindia.com

Viraj Kadwadkar

+91 22 6114 3457

viraj.kadwadkar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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