

July 05, 2017

Prothom Industries India Private Limited

Summary of rated instruments

Instrument*	Amount Rated (Rs. crore)	Rating Action
Long term: (Non Convertible Debentures)	15.00	[ICRA]D; Downgraded from [ICRA]BB- (Stable)

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long term rating to [ICRA]D (pronounced as ICRA D) from [ICRA]BB- (Stable) (pronounced as ICRA double B minus)¹ for the Rs. 15.00 crore² long term NCD facilities of Prothom Industries India Private Limited ('PIPL', 'The Company').

Rationale

The revision in rating factors in the recent delay in payment of interest on the NCD facilities by the company owing to delay in receiving payments from customers leading to cash flow mismatches. The liquidity profile continues to remain tight, along with high client concentration, leveraged capital structure and moderate coverage indicators.

Key rating drivers

Credit Strengths

- Experienced promoter with background in diverse businesses
- Reputed client profile

Credit Weakness

- Delay in interest payment on NCD due to delay in receiving payment from customers resulting into cash flow mismatch.
- Tight liquidity profile on account of increasing working capital requirement in line with top line growth
- High client concentration risk
- Leveraged capital structure and moderate coverage indicators

Sensitivities

- Regularization of interest payment and ensuring timeliness of the same going forward
- Effective working capital management
- 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.

As PIPL is currently under expansion phase, the company is marked by tight liquidity position on account of increasing working capital requirement. On account of this, coupled with delay in payments from clients, the company delayed on its interest payments for the NCD. Further, clauses concerned with raising the NCD require the management to raise a fresh equity before July 2017. The initial timeline for raising fresh equity was February 2017; however the timeline has been extended to July 2017. This is also the pre-condition for raising the "tranche B" NCD which is anticipated to be raised over short term. 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

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

whole or part. The company has so far raised “tranche A” of NCD worth Rs. 6.00 crore in December 2016. 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:

Default recognition

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

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 two products for Hasbro, and currently manufactures around eight products for the client, with few other products in pipeline.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Table: Rating History

Sr. No.	Instrument	Type	Current Rating		Chronology of Rating History for the past 3 years		
			Rated amount (Rs. Crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July-17	January-17	-	-
1	NCD	Long Term	15.00	[ICRA]D	[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

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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]D
NCD (Proposed)	-	-	-	9.00	[ICRA]D

Source: PIPL

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