

Pioneer Embroideries Limited (Revised)

October 07, 2021

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|------------------------------|---|--|--|
| Long Term Bank Facilities | 29.90 (Enhanced from 16.50) | CARE BB+; Positive [Double B Plus; Outlook: Positive] | Revised from CARE BB; Stable [Double B; Outlook: Stable] |
| Short Term Bank Facilities | 0.75 | CARE A4+ [A Four Plus] | Revised from CARE A4 [A Four] |
| Total Bank Facilities | 30.65 (Rs. Thirty Crore and Sixty-Five Lakhs Only) | | |

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in the rating is on account of an improvement in the operational performance of Pioneer Embroideries Limited (PEL) for FY21 and resilient in Q1FY22. The rating derives strength from the company's experience in the textile segment, improvement in capital structure and debt coverage metrics with a satisfactory debt servicing track record since April 2019. PEL's rating is however constrained by exposure to volatility in raw material price, foreign exchange risk, concentration in customer and supplier base and debt-funded capex in Specialty Polyester Filament Yarn (SPFY) segment.

Outlook: Positive

PEL is expected to benefit from improved demand for SPFY segment. Further, CARE expects PEL's capex in SPFY segment will aid to improve operational and financial risk profile of the company. However, the outlook maybe revised to 'stable' in case the company is unable to achieve envisaged improvement in operational and financial performance.

Rating Sensitivities**Positive Factors:**

- Increase in turnover above Rs.300 crore on sustainable basis.
- Improvement in operating margin above 13% on sustainable basis.

Negative Factors:

- Deterioration of overall gearing above 1.25x
- Deterioration in operating cycle above 120 days.
- Delay or cost overruns in capacity expansion project.

Detailed description of the key rating drivers**Key Rating Strengths****Experienced Promoters**

The key promoter of the company-Mr. Raj Kumar Sekhani has more than three decades of experience in the textile Industry. He is assisted by Mr. Harsh Vardhan Bassi, Mr. Gangadharan Panicker and Mr. Saurabh Maheshwari, who have a combined work experience of more than seventy years in the textile segment.

Improvement in operating performance of the company in last 3 years

PEL has two product segments namely- Specialty Polyester Filament Yarn (SPFY) and Embroidery and laces (EL). During last 3 years, the company has also started focusing on Partially Oriented Yarn (POY) manufacturing as this product yields better margins. SPFY contributes to nearly 89% of Total Sales with EL contribution of 11% to total sales respectively in FY21. PEL's operating performance improved significantly during FY19-FY21 period due to increased share of value-added products under SPFY business. PEL's product mix consists of Specialty Polyester Filament Yarn (SPFY) under 'SILKOLITE' brand, Embroideries

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

and laces. PEL owns retail outlets under 'Hakoba' brand with presence in online and offline retail market for selling apparels fabric etc.

SPFY primarily used in home-furnishing comprising of Carpets, Bath Mats, Upholstery Curtains, Technical Textile such as Medical Textile (Anti-Microbial), Anti Flame retardant, Automotive, and in Fabrics, apparels Narrow Fabrics, Knitting, Labels, etc. PEL manufactures different types of SPFY depending on end use application having major presence in home furnishing and technical textiles. During FY19-FY21, the company has stabilized its SPFY segment, leading to improvement in margin from 10% in FY19 to 14% in FY21. Thus, overall margin improved from 9.3% in FY19 to 12.6% in FY21.

During FY21, PEL's Q1 performance remained muted (TOI of Rs.24.7 crore with PAT loss at Rs.1.7 crore) due to COVID-19 pandemic and restriction imposed by the government. However, the company has taken advantage of pent-up demand in the market and favourable market conditions in later part of FY21, leading to FY21 PAT at Rs.19.6 crore. PAT margin of PEL improved from 1.5% in FY19 to 8.7% in FY21, primarily due to improvement in operating performance, reduction in interest cost following significant debt repayment and tax shield on account of carry-forward losses of previous years. During Q1FY22, PEL has clocked turnover of Rs.66.31 crore with PBILDT of Rs.6.77 crore and PAT of Rs.3.04 crore.

Going forward, PEL is expected to maintain its operating margin around 11-12%. The company is also introducing incremental capacity of 8000 MTA in SPFY segment. This can help the company to improve its scale of operation in coming period.

Improvement in capital structure and debt coverage metrics

Owing to its improvement in operating performance, cash generation ability and absence of debt-funded capex, PEL's overall gearing improved to 0.27x as on March 31, 2021 (PY: 0.39x). Going forward, PEL is considering capacity expansion project of Rs.58 crore, which will be funded through term loan of Rs.40 crore and balance through internal accruals. Despite this debt-funded capex, PEL's overall gearing is not expected to deteriorate above 0.50x in coming years. Further, PEL has sufficient headroom for availing working capital limits to meet its incremental working capital needs on account of increase in turnover. Considering above, PEL's capital structure is expected to remain comfortable.

PEL's debt coverage indicators also improved sharply during FY19-FY21 period. Interest coverage improved from 2.74x in FY19 to 6.34x in FY21 while Total debt to cash accruals improved from 4.32x in FY19 to 1.23x in FY21. Going forward, PEL's debt coverage indicators expected to improve significantly, led by improvement in operating performance.

Comfortable operating cycle

PEL's operating cycle remains comfortable at 60 days in FY21 (PY: 45 days) and moderate utilization of working capital limits at 59% for 12-month period ending in May-21. PEL maintains inventory level of 60 days and offers credit period of 30-45 days in SPFY segment. Further, the company receives 45-60 days of credit period from its suppliers. Hence, overall operating cycle remains comfortable for PEL. Going forward, PEL expects increase in working capital limits due to increase in scale of operations while maintaining operating cycle at around 60-65 days.

Key Rating Weaknesses

Capex for capacity expansion for SPFY segment

The current expansion is in in POY (*Partially Oriented Yarn*) and DTY (*Draw Textured Yarn*) segment. The Company is aggressively focusing on POY-based speciality textile avenues such as Flame retardant, Automotive, Anti-Microbial and value added DTY yarn for non-apparel segments. The total project cost is about Rs 58 crore, of which Rs 18 crore would be from internal accruals and the balance will be funded through bank borrowings. The project is expected to be completed in 4-5 quarters and the new capacity will be fully operational by the fourth quarter of FY22-23. PEL is in process of raising debt for the project. The new capacity of 8000 MTA, when added will have a sales potential of Rs 100- 110 crore at full utilization with a mix of domestic and exports for FY24 period.

Customer and geographic concentration risk

PEL's turnover is susceptible to its client concentration over last 3 years. Contribution of top 5 customers remained around 50% to total sales of the company, thus leading to significant customer concentration risk. However, PEL's 60% of clients are involved with the company for more than 4 years. Hence, the customer concentration risk is partially mitigated. For FY21, customer concentration increased from 44% of total sale in FY20 to 54% of total sales in FY21. PEL was able to supply quality yarns for leading downstream players in home furnishing segment.

Susceptible to volatility in raw material prices

PEL mainly uses raw materials like PET-Chips, polyester yarn and polyester colour which are crude oil derivatives. Crude oil price movement depends on international factors such as output from OPEC, US-Iran sanctions, and global pricing factors. The main raw materials of polyester are purified terephthalic acid (PTA) and mono ethylene glycol (MEG). Costs of these petrochemical derivatives are largely subject to volatility in crude oil prices. During FY21, the company was able to take advantage of lower raw material prices to improve its operating margins. However, since the crude oil prices remained volatile at higher levels in recent times, PEL's operating margins may come under pressure. Company's ability to pass on these fluctuations remains key rating monitorable. PET chips contribute to around 50% of purchases for PEL.

Susceptible to volatility in foreign exchange rates

PEL exports SPFY to US, Turkey, Belgium, Egypt, etc along with other 14 countries on smaller quantities. Total export sales contribute 20% in total sales for FY21 (PY: 15%). PEL's export to US is through a Belgium trading company. Currency risk associated with PEL's foreign currency payables has been partially hedged by entering into forward contracts. However other foreign currency assets and liabilities remain exposed to currency risk. With the gradual increase in exports, the ability of the company to successfully manage its foreign exchange exposure remains critical to the credit profile.

Liquidity Position: Adequate

PEL's liquidity profile is marked by cash and bank balance of Rs.6.18 crore and current ratio at 1.56x as on March 31, 2021. PEL's working capital utilization remains moderate at 59% for 12-month period ending in May-21 while comfortable operating cycle of 60 days. For FY22, PEL has debt repayment obligation of Rs.8.94 crore from gross cash accrual of Rs.25 crore. Further, PEL is undertaking capex of Rs.58 crore, Rs.40 crore funded through debt and balance from internal accruals over FY22-23 period. Considering above, PEL has adequate liquidity to meet its debt obligations, capex requirement as well as incremental working capital needs in near term.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manmade Yarn Manufacturing](#)

About the Company

Pioneer Embroideries Limited was incorporated in 1991 and is Specialty Polyester Filament Yarn (SPFY) and into embroidered and laces. The company has 4 plants located in Kala-amb (Himachal Pradesh), Sarigam (Gujarat), Coimbatore (Tamil Nadu) and Naroli (Silvassa). The company mainly produces SPFY, Embroidered Laces, Braided Laces and Embroidered Fabrics. As on March 31, 2021, the company has installed capacity of SPFY (18,200 MT) Embroidery Laces and Fabrics (1521 mn stitches), Bobbin Lace (1,36,38,000 mt). The company also has presence in retail through its subsidiary Hakoba Lifestyle Limited and operates outlets under brand name 'Hakoba'.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) |
|------------------------------|----------------|----------------|
| Total operating income | 238.48 | 226.73 |
| PBILDT | 20.10 | 28.33 |
| PAT | 8.28 | 19.67 |
| Overall gearing (times) | 0.39 | 0.27 |
| Interest coverage (times) | 3.27 | 6.34 |

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based-Long Term | - | - | - | - | 15.00 | CARE BB+; Positive |
| Non-fund-based - ST-BG/LC | - | - | - | - | 0.75 | CARE A4+ |
| Fund-based - LT-Working capital Term Loan | - | - | - | March, 2025 | 14.90 | CARE BB+; Positive |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|---|-----------------|--------------------------------|--------------------|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based-Long Term | LT | 15.00 | CARE BB+; Positive | - | 1)CARE BB; Stable (08-Mar-21) 2)CARE B; Stable (03-Sep-20) | 1)CARE B; Stable (24-Oct-19) | - |
| 2 | Non-fund-based - ST-BG/LC | ST | 0.75 | CARE A4+ | - | 1)CARE A4 (08-Mar-21) 2)CARE A4 (03-Sep-20) | 1)CARE A4 (24-Oct-19) | - |
| 3 | Fund-based - LT-Working capital Term Loan | LT | 14.90 | CARE BB+; Positive | - | 1)CARE BB; Stable (08-Mar-21) | - | - |

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this company

| Sr. No | Name of instrument | Complexity level |
|--------|---|------------------|
| 1 | Fund-based - LT-Working capital Term Loan | Simple |
| 2 | Fund-based-Long Term | Simple |
| 3 | Non-fund-based - ST-BG/LC | Simple |

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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