

Pioneer Embroideries Limited

March 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1.50	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Long Term Bank Facilities	15.00	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE B; Stable (Single B; Outlook: Stable)
Short Term Bank Facilities	0.75	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	17.25 (Rs. Seventeen Crore and Twenty-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 revenue and profitability margins generated by Pioneer Embroideries Limited (PEL) along with significant debt repayment as per FY20(Audited Figures) and 9MFY21(Unaudited Figures).The rating derives strength from the company's experience in the textile segment, stable operations with moderate profitability margins and an 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 raw material price, foreign exchange risk and concentration in customer and supplier base.

Pioneer Embroideries Limited has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020

Key rating Sensitivities

Positive Factors

- Increase in turnover above Rs 300 Cr on a sustained basis
- PBILDT margin above 13% on a consistent basis

Negative factors

- Deterioration of debt coverage indicators as marked by increase in overall gearing ratio beyond 1.20x
- Deterioration in liquidity position as marked by the current ratio being below 1.00x

Detailed description of the key rating drivers

Key Rating Weaknesses

Concentrated Customer and Supplier Base:

The aggregate sales generated from the top clients amount to 57.48% of total sales (PY-66.37%) - of which top 2 contribute almost 32.96% (PY-40.21%) to the total sales, which shows high client concentration risk. Similarly, aggregate purchases from the top suppliers amount to 82.90% (PY-99.54%) of total purchases.-of which top 2 contribute almost 65.88% of total purchases

Raw Material Volatility

PEL mainly uses raw materials like PET-Chips, polyester yarn and polyester color 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. The raw material costs incurred by PEL declined from Rs 170.33 cr in FY19 to Rs 141.64 cr in FY20 due to a decline in crude oil (15%-20%) which is a key RM component for DDPY.

Foreign Exchange Risk:

PEL mostly exports DDPY to countries like Turkey, Egypt, Belgium, USA and certain EU countries. The Total foreign exchange gain earned in FY20 was Rs. 0.62 cr (FY19- 1.14 cr). Exports in FY20 declined from Rs 60.44cr in FY19 to Rs 35.39cr in FY20. This is due to the shift in one of PEL's top clients. PEL's top client-Globaltex Bvba-which accounted for 15% of Total Sales in FY19 , accounted for only 9% of Total sales in FY20 and eventually shifted to a competitor. However, PEL reported that the client was back to purchasing goods from PEL in FY21. Exports for 9MFY21 was Rs 33.21 crore.

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 and Mr. Gangadharan Panicker, who have a combined work experience of more than fifty years in the textile segment

Stable operations with moderate profitability margins:

PEL has three product segments namely- Dope Dye Yarn(DDPY), Embroidered fabrics and laces(EB) and Bobbin Lace(BLU). DDPY contributes to nearly 83% of Total Sales with EB and BLU making a contribution of 15% and 2% to total sales respectively as per FY20 figures. With a total DDPY capacity of 18,200 MT, PEL's DDPY capacity utilization level was 81% for FY20 and 69% for 9MFY21.

PEL's PBILDT has been relatively stable with a marginal decline(~2%) from Rs 20.95 cr in FY19 to Rs 20.54 cr in FY20 despite a 13.20% decline in Revenue from Rs 275.18 cr in FY19 to Rs 238.92 cr in FY20. The decline in revenue can be attributed to the degrowth in sales volume and exports of DDPY. Revenue from DDPY declined from Rs 229.74cr in FY19 to Rs 199.24cr in FY20 on account of a degrowth in volume and sales realization per unit. Total exports declined from Rs 60.44cr in FY19 to Rs 35.39cr in FY20. This is due to the shift in one of PEL's top clients. PEL's top client-Globaltex Bvba-which accounted for 15% of Total Sales in FY19, accounted for only 9% of Total sales in FY20 and eventually shifted to a competitor. However, PEL reported that the client was back to purchasing goods from PEL in FY21. The PAT figure increased from Rs 4.13 cr in FY19 to Rs 8.28 cr in FY20. This can be attributed to the extra-ordinary profit of Rs 2.20 cr earned from the sale of property (sold at Rs 5.21 cr) and the decline in raw material costs from Rs 170.33 cr(~62% of sales) in FY19 to Rs 141.64 cr in FY20(~59% of sales).

Based on 9MFY21 financials, revenue stood at Rs 147.25 crore(vis-à-vis Rs 188.01 crore in 9MFY20). PBILDT increased from Rs 16.03 crore in 9MFY20 to Rs 18.38 crore in 9MFY21. PAT increased from Rs 6.67 crore to Rs 8.78 crore in 9MFY21.

Revenue in Q3FY21 recorded 19.45% y-o-y and 31.24% q-o-q increase from Rs 58.20 cr in Q3FY20 and Rs 52.97 cr in Q2FY21 to Rs 69.52 cr in Q3FY21. PAT increased from Rs 3.93 cr in Q3FY20 and Rs 2.44 cr in Q2FY21 to Rs 8.01 cr in Q3FY21, thus recording 103.28% y-o-y and 228.28% q-o-q growth.

Improvement in capital structure and debt coverage metrics:

The overall gearing has improved from 0.90x in FY18 to 0.39x in FY20. The debt equity ratio has also improved from 0.68x in FY18 to 0.21x in FY20. This can be attributed to the increase in net worth from Rs 74.48 cr in FY18 to Rs 90.06 cr in FY20 on account of accretion to reserves and decline in total debts from Rs 66.75 cr in FY18 to Rs 34.79 cr in FY20 mainly on account of repayment of long term debt. The repayment of Long term debt from FY 18 to FY 20 has been approximately Rs 30 Crs. The PBILDT interest coverage for FY20 stood at 3.35x vis-à-vis 2.74x in FY19 and the Total Debt to GCA for FY20 was 2.05x vis-à-vis 4.32x in FY19.

Industry Outlook:

MMF exports and production are expected to see an improvement in the coming months backed by an increase in demand and easing of lockdown restrictions. It is to be noted that the MMF exports had performed better compared to its production post lockdown (June 2020 onwards). Going forward the industry scenario will depend on how the situation evolves in the domestic and international markets and faster return to normalcy will enable the industry to curtail the damages and improve on its growth prospects. In the medium to long term, some demand from the US and the EU markets is expected to shift (though gradually) from China to other major garment manufacturers.

Liquidity analysis: Adequate

The working capital cycle has increased to 45 days in FY20 from 37 days in FY19. This is on account of an increase in average inventory days from 45 days in FY19 to 55 days in FY20. The average monthly utilization of fund-based limits for 12 months ended Jan 2021 was 89.66%. The company has positive cash flow from operations with the cash from operating activities at Rs 25.62 cr in FY20 vis-à-vis Rs 19.50 in FY19. The repayment obligation for FY21 is Rs. 7.49 crore out of which Rs 6.31cr has been repaid as on 11-Feb-21. Routine capex of Rs 3.00 cr will be funded via internal accruals. As on 29-Jan-21, the cash balance with PEL was Rs 9.66 cr. PEL borrowed an additional amount of Rs 2.50 cr in FY20 and Rs 7.50cr in FY21 to meet its working capital requirement. The current ratio for FY20 was 1.16x, recording a marginal improvement from 1.00x in FY19. The GCA for FY20 was Rs 16.99cr vis-à-vis Rs 12.87cr in FY19. PEL had availed a moratorium on payments from its lenders as part of the COVID-19 regulatory package announced by the RBI. The company has not availed the One Time Restructuring option for its debt facilities, as offered by the RBI.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[Criteria for Short Term Instruments](#)

[CARE's default recognition policy](#)

[Financial ratios - Non Financial Sector](#)

[Rating methodology – Manufacturing companies](#)

About the Company

Pioneer Embroideries Limited was incorporated in 1991 and is into embroidered fabrics, laces and dope dyed yarn. The company has 4 plants located in Kala-amb(Himachal Pradesh), Sarigam (Gujarat), Coimbatore(Tamil Nadu) and Naroli(Silvassa). The company mainly produces Dope Dyed Polyester Yarn, Embroidered Laces, Braided Laces and Embroidered Fabrics. As on March 31, 2020 the company has installed capacity of Embroidery Laces and Fabrics (1521 mn stitches), Bobbin Lace (1,36,38,000 mtrs) and Dope dyed yarn (18200 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)	FY19 (A)	FY20 (A)	9MFY21(UA)
Total operating income	275.18	238.92	147.25
PBILDT	20.95	20.54	18.38
PAT	4.13	8.28	8.78
Overall gearing (times)	0.68	0.39	NA
Interest coverage (times)	1.60	1.93	3.50

*A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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; Stable
Non-fund-based - ST-BG/LC	-	-	-	0.75	CARE A4
Fund-based - LT-Working capital Term Loan	-	-	-	1.50	CARE BB; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	15.00	CARE BB; Stable	1)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 (03-Sep-20)	1)CARE A4 (24-Oct-19)	-	-
3.	Fund-based - LT-Working capital Term Loan	LT	1.50	CARE BB; Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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

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

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