

Premier Synthetics Limited

February 11, 2022

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---|---|---|---------------|
| Non-Convertible Redeemable Preference Share | 9.50 | CARE B (RPS); Stable [Single B (Redeemable Preference Shares); Outlook: Stable] | Reaffirmed |
| Total Long Term Instruments | 9.50 (Rs. Nine Crore and Fifty Lakhs Only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instrument of Premier Synthetics Limited (PSL) continues to be constrained by modest scale of operations with fluctuating profitability margins, low cash accruals, low net worth and working capital-intensive nature of operations. The rating is further constrained by the concentration of revenue to few customers, susceptibility of profitability margins to volatile raw material prices and presence in a highly fragmented and competitive textile industry. The rating also considers financial support provided by the promoters in the form of interest free loan.

Rating Sensitivities

Positive Factors

- Increase in scale of operations with revenue increasing to above Rs.100crore along with improvement in PBILDT margin to above 5% on sustainable basis

Negative Factors

- Decline in revenue by more than 30% on a sustained level and decline in PBILDT margin to below 2%
- Any debt funded capex

Detailed description of the key rating drivers:

Key Rating Weaknesses

Modest scale of operations coupled with revenue concentration risk

Premier Synthetics Limited (PSL) operates at a small scale. In FY21 the total operating income declined to Rs.24.51crore due to the shutdown of plant from April 2020 to June 2020. It was partially operational from July 2020 onwards up to October 2020. In 10MFY22 the company reported improvement in sales to Rs.48crore, thereby surpassing the sales reported in past 5 years. H1FY22 was a very productive period for Cotton Yarn manufacturers in view of reasonable level of prices of raw materials and increased demand in the yarn market which resulted in high realization.

Client concentration risk remains significantly high with one of the customers accounting for 40.56% of total sales in 9MFY22. Further, top 5 customers accounted for 84.07% of total sales in 9MFY22.

Low profitability susceptible to volatility in input cost

The profitability margins continue to remain low due to higher cost of production led by higher rate of electricity and higher cost of manpower. The company caters to the denim manufacturers and has limited pricing power. The PBILDT margins improved in FY21 and H1FY22 to ~9% compared to ~2% in FY20 led by increase in demand of cotton fabrics in the local as well as in the international market. The prices of raw materials during this period remained low and this has resulted in lower cost of production during this period.

Presence in a highly fragmented and competitive textile industry

PSL operates in a cyclical, fragmented and commoditized industry which is characterized by intense competition due to a large number of players in the organized and unorganized sector.

Working capital intensive nature of operations

The operations of PSL are working capital intensive as the company has to pay most of its suppliers upfront upon purchase and several customers enjoy a larger credit period of 60-80 days. In FY21, collection period was stretched to 120 days due to extended credit period offered to customers owing to covid-19 situation.

Key Rating Strengths

Experiences promoter and regular financial support provided over the years

Earlier PSL was headed by Mr Anand Arya, who has 35 years of experience in the textile industry. Pursuant to completion of the open offer, new promoters have taken over PSL w.e.f October 2015. The new promoters are also vastly experienced but have

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

limited experience in textile industry. However, the promoters have always supported the operations of the company by infusion of funds as preference share and interest free unsecured loan.

Liquidity: Stretched

The operations of the company are working capital intensive with an operating cycle of 167 days, average receivable period of 120 days, average inventory period of 64 days and average creditor period of 17 days. The company has not availed any working capital limits and its free cash balance is merely Rs.54 lakhs.

Analytical approach: Standalone

Applicable Criteria

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

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology- Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Premier Synthetics Limited is engaged in yarn manufacturing which is mainly used by textile denim manufacturers. Till FY17, PSL used to manufacture yarn on a job work basis, for its group concern - Blue Blends (India) Limited (BBIL). From FY18, the company has started supplying to independent players. The company operates a spinning unit located in Ahmedabad, with an installed capacity of 55 lakh metric tonnes/annum.

During FY16, PSL successfully completed an open offer pursuant to which the original promoter, Mr. Anand Arya ceased control of the company. The new promoters of the Company by virtue of completion of the Open Offer are Mr. Gautamchand Kewalchand Surana, Mr. Vikram Amritlal Sanghvi, Mr. Rajiv Giriraj Bansal and Mr. Sanjay Kumar Vinodbhai Majethia.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) | H1FY22(UA) |
|------------------------------|----------|----------|------------|
| Total operating income | 42.97 | 24.51 | 25.15 |
| PBILDT | 0.82 | 2.25 | 2.05 |
| PAT | 0.11 | 1.58 | 1.18 |
| Overall gearing (times) | 0.56 | 0.54 | NA |
| Interest coverage (times) | 7.26 | 127.96 | 4.27 |

A: Audited; UA: Un-audited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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 |
|---|--------------|------------------|-------------|------------------|-------------------------------|---|
| Preference Shares-Non Convertible Redeemable Preference Share | INE940N04016 | October 12, 2015 | 0.01% | October 12, 2035 | 9.50 | CARE B (RPS); 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 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 | Preference Shares-Non Convertible Redeemable Preference Share | LT | 9.50 | CARE B (RPS); Stable | - | 1)CARE B (RPS); Stable (26-Feb-21) | 1)CARE B (RPS); Stable (04-Mar-20) | 1)CARE B (RPS); Stable (08-Mar-19) |

*Long term/ short term

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

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|---|------------------|
| 1. | Preference Shares-Non Convertible Redeemable Preference Share | Simple |

Annexure 5: Bank Lender Details

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. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings:

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