

Pioneer Embroideries Limited

June 14, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Positive (Double B Plus; Outlook: Positive) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4+ (A Four Plus) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of **CARE BB+; Positive/A4+** [Double B Plus; Outlook Positive; A Four Plus] assigned to the bank facilities of Pioneer Embroideries Limited with immediate effect on the basis of No Objection Certificate from the lenders.

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.

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. 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 Speciality Polyester Filament Yarn (SPFY) under 'SILKOLITE' brand, Embroideries 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 FY22, PEL has clocked turnover of Rs. 292.17 crore with PBILDT of Rs.24.80 crore and PAT of Rs. 11.05 crore. The company's operating margin declined to 8.49% (PY:12.50%) on account of increase in the cost of raw materials. Thus, despite of reduction in interest cost the PAT margin declined from 8.67% in FY21 to 3.78% in FY22.

The company is 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 and cash generation ability, PEL's overall gearing remained comfortable at 0.24x as on March 31, 2022 (PY: 0.27x). 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 during FY20-FY22 period. Interest coverage improved from 3.27x in FY20 to 7.74x in FY22. Going forward, PEL's debt coverage indicators expected to improve significantly, led by improvement in operating performance.

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

Comfortable operating cycle

PEL's operating cycle remains comfortable at 55 days in FY22 (PY: 60 days) due to decrease in its inventory days to 56 days (PY:71days). The average working capital utilization for PEL is 58% for 12-month period ending Apr-22.

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 ram 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 unencumbered cash of Rs. 9 crore as on May 26, 2022 (cash and Liquid investments as on March 31, 2022: Rs. 1.33 crore). The current ratio is 1.78x as on March 31, 2022. PEL's working capital utilization remains moderate at 58% for 12-month period ending in Apr-22 while comfortable operating cycle of 55 days. For FY23, PEL has debt repayment obligation of Rs.6.89 crore from gross cash accrual of Rs.23.33 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 Withdrawal of ratings](#)

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

[CARE's policy on Default recognition](#)

[Rating Methodology- Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

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

[Rating Methodology for Cotton Textile Manufacturing](#)

[Rating Methodology for Manmade Yarn Manufacturing Sector](#)

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

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. The company also has presence in retail through its subsidiary Hakoba Lifestyle Limited and operates outlets under brand name 'Hakoba'.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)
Total operating income	226.73	292.17
PBILDT	28.33	24.80
PAT	19.67	11.05
Overall gearing (times)	0.27	0.24
Interest coverage (times)	6.34	7.74

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		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	-	-	-	1)CARE BB+; Positive (07-Oct-21)	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	-	-	-	1)CARE A4+ (07-Oct-21)	1)CARE A4 (08-Mar-21) 2)CARE A4 (03-Sep-20)	1)CARE A4 (24-Oct-19)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Positive (07-Oct-21)	1)CARE BB; Stable (08-Mar-21)	-

* Long Term / Short Term

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-Term Loan	Simple
2	Fund-based-Long Term	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Soumya Dasgupta
Contact no.: 022- 6754 3456
Email ID: soumya.dasgupta@careedge.in

Relationship Contact

Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

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