

## Premier Synthetics Limited (Revised)

December 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-Term Long-Term Instruments	9.50	CARE B; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and 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.

However, the rating also considers financial support provided by the promoters in the form of interest free loan.

### Rating sensitivities: Factors likely to lead to rating actions:

#### Positive factors

- Increase in scale of operations with revenue increasing to above Rs.80 crore 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.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes Premier Synthetics Limited will continue to benefit from experience of the promoters and is expected to maintain its stable operating performance in near term with support from the promoters.

### Detailed description of the key rating drivers

#### Key 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 promoters have always supported the operations of the company by infusion of funds as preference share and interest free unsecured loan.

#### Key Weaknesses:

##### Modest scale of operations coupled with revenue concentration risk.

Premier Synthetics Limited (PSL) operates at a small-scale. In FY23 total operating income reported was Rs. 52.67 against Rs. 58.37 crore in FY22, Rs.24.36 crore in FY21 and Rs 42.97 crore in FY20. The TOI declined in FY23 on account of subdued textile industry. In FY23, revenue and margins declined due to less export demand which caused excess supply in the domestic markets, thereby increasing competition for PSL. The industry is expected to recover by Dec-2023.

In H1FY24, the TOI reported is Rs. 34 crores vis a vis Rs. 27.46 crores in FY23 and Rs.25.15 crore in H1FY22. In FY23, the installed capacity was reduced from 4000 MT to 3000 MT due to closure of its one plant. Further it was reduced to 2000 MT in FY24 due to shutdown of of its yarn manufacturing operations and only continuation of operations with reprocessing of cotton waste.

Client concentration risk remains significantly high with two customers namely Ultra Denim Private Limited and Sangam India Limited (Denim division) accounting for more than 50% of total sales in FY23. Further, top 5 customers account for 74% of total sales in FY23.

##### Susceptibility of profitability margins to raw material prices

Major raw materials used by PSL include cotton/cotton yarn. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. Hence profitability of the company continues to remain highly susceptible to raw material price fluctuation which has exhibited considerable volatility in the past. However, PSL mainly follows order-based production policy wherein around 50-60% of the goods are produced against orders which minimizes inventory fluctuation risk. Also, the price pass through to the customers partially mitigates the pricing risk.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### 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 FY23, operating cycle deteriorated to 96 days vis-à-vis 75 days in the previous year, owing to increase in inventory days due to subdued demand in global textile industry.

### 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 which in turn limits the pricing power of the players in the industry. Furthermore, the industry is characterized by having low bargaining power for smaller players against large suppliers resulting in very low operating margins. Brand image, quality, research and development, and customer loyalty are the key success factors for PSL to sustain itself in the long run.

### Liquidity: Stretched

The operations of the company are working capital intensive with an operating cycle of 96 days, average receivable period of 54 days, average inventory period of 48 days and average creditor period of 7 days. The company has availed working capital limits of Rs.9.90 crore and average utilization has been around 50% which provides some liquidity backup. The company has cash and bank balance of around Rs. 0.04 crore as on March 31, 2023. There has been support from the promoters in the form of unsecured loans in the past and is expected to remain going forward to support the operations of the company.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** NA

### 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](#)

[Cotton Textile](#)

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[Policy on Withdrawal of Ratings](#)

### About the company and industry

#### Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	58.37	52.68	35.09
PBILDT	2.92	0.71	0.04
PAT	2.50	0.02	0.06
Overall gearing (times)	0.69	0.79	NA
Interest coverage (times)	10.57	1.56	NA

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating history for the last three years:** Please refer Annexure-2

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

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-Cumulative Non-Convertible Redeemable Preference Shares (issued to promoters)	INE940N04016	12-Oct-2015	-	12-Oct-2035	9.50	CARE B; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Preference Shares-Non-Convertible Redeemable Preference Share	LT	9.50	CARE B; Stable	-	1)CARE B; Stable (23-Dec-22) 2)CARE B; Stable (15-Apr-22)	1)CARE B (RPS); Stable (11-Feb-22)	1)CARE B (RPS); Stable (26-Feb-21)

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- NA**

**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**

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

**Note on the complexity levels of the rated instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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