

Premier Synthetics Limited

December 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term instruments	9.50	CARE B; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of 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 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: Factors likely to lead to rating actions

Positive factors

- Sustained revenue growth of over 15% annually, while maintaining operating profitability.

Negative factors

- Decline in revenue to below ₹20 crore on a sustained level.
- Decline in interest cover to below 1.20x on a sustained basis.
- Any debt funded capex.

Analytical approach: Standalone

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

Experienced promoter and regular financial support provided over the years

Earlier, PSL was headed by 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 from October 2015. Promoters have always supported the company's operations by infusion of funds as preference share and interest free unsecured loan.

Key weaknesses

Low scale of operations and losses incurred in FY24

PSL operates at a small scale. In FY24, total operating income (TOI) reported was ₹52.73 crore against ₹52.67 in FY23, though the TOI generated by the company from its continuing operations stands at ₹7.99 crore for FY24 against NIL for FY23. In the quarter ended March 31, 2024, the company discontinued its manufacturing operations of cotton yarn from January 01, 2024, permanently and the company has undertaken trading of cotton and cotton yarn. The company discontinued manufacturing due to decline in demand from the textile denim manufacturing units coupled with subdued export demand. The profitability was adversely impacted due to low realisation of stock at the time of closure of unit and low margins inherent in the trading business.

Susceptibility of profitability margins to raw material prices

Operating profitability is moderately susceptible to volatility in the price of key raw material, cotton (which also accounts for significant percentage of the yarn's cost). Cotton prices are volatile as they are sensitive to international demand and supply as well as factors such as monsoon or pest attacks. This impacts the operating margin for the companies engaged in this industry. With the company entering this industry post discontinuing its manufacturing facilities, the company's ability to manage its raw material cost would be a key monitorable.

Working capital intensive nature of operations

PSL's operations 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. The company also has a working capital limit of ₹6 crore (reduced from ₹9.90 crore due to reduced level of the company's operations) from Axis Bank.

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

Presence in a highly fragmented and competitive textile industry

PSL operates in a cyclical, fragmented and commoditised industry which is characterised by intense competition due to several players in the organised and unorganised sector, which limits the pricing power of the players in the industry. Furthermore, the industry is characterised by having low bargaining power for smaller players against large suppliers resulting in very low operating margins.

Liquidity: Stretched

The company's operations are working capital intensive. The company has availed working capital limits of ₹6 crore and average utilisation has been around 60% which provides some liquidity backup. The company has cash and bank balance of around ₹0.07 crore as on March 31, 2024. There has been support from promoters in the form of unsecured loans in the past and is expected to remain going forward to support the company's operation.

The company does not have term debt. Finance cost comprises of interest on working capital borrowings. This was met through management of working capital cycle in FY24 (reduction in debtors). Cashflow from operations stood positive at ₹3.28 crore in FY24 compared to ₹2.16 crore in FY23.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Short Term Instruments](#)

[Manmade Yarn-Methodology](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

PSL 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 in Ahmedabad, with an installed capacity of 55 lakh metric tonnes/annum. In FY16, PSL successfully completed an open offer pursuant to which the original promoter, Anand Arya ceased the company's control. The company's new promoters considering completion of the open offer are Gautamchand Kewalchand Surana, Vikram Amritlal Sanghvi, Rajiv Giriraj Bansal and Sanjay Kumar Vinodbhai Majethia.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	52.68	52.74	10.97
Total operating income (Continued Business)	0.00	7.99	10.97
PBILDT	0.71	-2.79	-0.68
PAT (Total)	0.02	-2.21	0.39
PAT (Continued Business)	0.00	0.37	-0.09
Overall gearing (times)	0.79	0.61	NA
Interest coverage (times)	0.00	6.19	NA

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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 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 2024-2025	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
1	Preference Shares-Non Convertible Redeemable Preference Share	LT	9.50	CARE B; Stable	-	1)CARE B; Stable (15-Dec-23)	1)CARE B; Stable (23-Dec-22) 2)CARE B; Stable (15-Apr-22)	1)CARE B (RPS); Stable (11-Feb-22)

LT: Long term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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