

## Premier Synthetics Limited

December 23, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Long Term Instruments	9.50	CARE B; Stable (Single B; Outlook: Stable )	Reaffirmed
<b>Total Long Term Instruments</b>	<b>9.50</b> <b>(₹ Nine Crore and Fifty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed 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. The rating also considers financial support provided by the promoters in the form of interest free loan.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- 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 – Factors that could lead to negative rating action/downgrade:

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

### Outlook: Stable

### Detailed description of the key rating drivers

#### 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 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.

#### Key rating weaknesses

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

Premier Synthetics Limited (PSL) operates at a small scale. In FY22 total operating income reported was Rs. 58.37 crore as compared to Rs.24.36 crore in FY21 and Rs 42.97 crore in FY20. The improvement in revenue in FY22 was on account of increase in the volume and high realizations. In H1FY23, company reported TOI of Rs.27.46 crore vis-à-vis Rs.25.15 crore in H1FY22. The production in FY22 was 3536 MT which is ~88% of capacity utilization.

Client concentration risk remains significantly high with one customer Ultra Denim Private Limited accounting for 38.05% of total sales in FY22. Further, top 5 customers account for 91.56% of total sales in FY22.

##### 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,

<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

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.

#### **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 FY22, operating cycle improved to 75days vis-à-vis 167days in the previous year, owing to improvement in collection and inventory days.

#### **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 75 days, average receivable period of 46 days, average inventory period of 35 days and average creditor period of 6 days. The company has availed working capital limits of Rs.9.90 crore and average utilization has been around 50%. The company has cash and bank balance of around Rs.1.66 crore as on March 31, 2022.

#### **Analytical approach: Standalone**

#### **Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

#### **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.

<b>Brief Financials (₹ crore)</b>	<b>March 31, 2021 (A)</b>	<b>March 31, 2022 (A)</b>	<b>H1FY23 (UA)</b>
Total operating income	24.36	58.37	27.46
PBILDT	2.09	2.92	0.61
PAT	1.58	2.50	0.01
Overall gearing (times)	0.54	0.69	NA
Interest coverage (times)	119.15	10.58	2.90

A: Audited; UA: Unaudited; NA: Not available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**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 various instruments rated for this company:** Annexure-4

#### 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Preference Shares-Non Convertible Redeemable Preference Share	LT	9.50	CARE B; Stable	1)CARE B; Stable (15-Apr-22)	1)CARE B (RPS); Stable (11-Feb-22)	1)CARE B (RPS); Stable (26-Feb-21)	1)CARE B (RPS); Stable (04-Mar-20)

\*Long term/Short term.

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

#### Annexure-4: Complexity level of various instruments rated for this company

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

#### Annexure-5: Bank lender details for this company

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

**Note on 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 for any clarifications.

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