

## Premier Synthetics Limited

February 26, 2021

### Ratings

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

*Details of instruments/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. 100 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

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

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

PSL operates at a small scale having a total operating income of Rs. 42.97 crore in FY20 as compared to Rs.46.41 crore in FY19. Also, revenue concentration risk remains with top five customers accounting for 81.39% of Total Sales in FY20 and 97.44% of Total Sales in FY19.

PSL was impacted due to COVID led nationwide lockdown in the first quarter of FY21. The company recorded total sales of Rs. 14.13 crore with PAT of Rs. 0.09 crore during 9MFY21.

##### ***Low profitability and susceptible to volatility in input cost***

The profitability margins were low since the plant is of old technology which resulting into higher cost of production. The cost of production is also higher due to higher rate of electricity and higher cost of manpower. The company caters to the denim manufacturers and has limited pricing power.

##### ***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 immediately upon purchase and several customers enjoy a larger credit period of 60-80 days. Operating cycle of the company has increased to 106 days in FY20 from 93 days in FY19 due to longer collection period from new clients. Collection period increased from 71 days in FY19 to 86 days in FY20.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### 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.

#### **Liquidity: Stretched**

The liquidity is stretched due to low cash generation. The operations of the company are highly working capital intensive with an operating cycle of around 106 days in FY20. The company has not availed any working capital limits and its cash and cash equivalents were merely Rs. 4.59 lakhs as on March 31, 2020. The company also had no external term loans and thus have no fixed repayment obligation.

**Analytical approach:** Standalone with support from the promoters

### 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](#)

[Complexity Levels of Rated Instruments](#)

### 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)	FY18 (A)	FY19 (A)	FY20 (A)
Total operating income	46.44	46.41	42.97
PBILDT	1.14	1.93	0.82
PAT	1.16	2.07	0.11
Overall gearing (times)	1.85	1.71	0.56
Interest coverage (times)	8.56	24.01	7.26

A: Audited

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

**Any other information:** NA

**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
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Preference Shares-Non Convertible Redeemable Preference Share	LT	9.50	CARE B (RPS); Stable	-	1)CARE B (RPS); Stable (04-Mar-20)	1)CARE B (RPS); Stable (08-Mar-19)	1)CARE B (RPS) (23-Nov-17)

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

**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

**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@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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