# Pioneer Embroideries Limited

September 03, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Rating1 | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 15.00 | CARE B; Stable (Single B; Outlook: Stable) | Reaffirmed |
| Short term Bank Facilities-Proposed | 0.75 | CARE A4 (A Four) | Reaffirmed |
| Total Facilities | 15.75 (Rs. Fifteen Crore and Seventy-Five Lakhs Only) | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to Pioneer Embroideries Limited is constrained by tight liquidity position, exposure to raw material price, foreign exchange risk and concentration in customer and supplier base. The rating derives strength from the company's experience in the textile segment, stable operations with moderate profitability margins and an improvement in capital structure and debt coverage metrics with a satisfactory debt servicing track record since April 2019.

Pioneer Embroideries Limited has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Rating Sensitivities

*Positive Factors*

- Increase in turnover above Rs 300 Cr on a sustained basis
- PBILDT margin above 10% on a consistent basis

*Negative Factors*

- Deterioration of debt coverage indicators as marked by increase in overall gearing ratio beyond 1.20x
- Deterioration in liquidity position as marked by the current ratio being below 1.00x

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

**Tight liquidity position**

The company had defaulted on its debt repayments in March 2019. The company also had overdrawals in its working capital account upto March 2019. As per the latest bank statements received, the accounts have been regular for the period of April 2019-June 2020. The company's cash balance as on 31-March-20 was Rs. 1.42 crore (FY19-Rs 0.56cr). The current repayment for FY21 has been revised from Rs. 7.49 crore(Rs 7.07cr-loan repayment and Rs 0.42cr-lease liability) to Rs 4.33 cr (Rs 3.91 cr-loan repayment and Rs 0.42cr-lease liability) due to the moratorium on payments from its lenders as part of the COVID-19 regulatory package announced by the RBI. As of Q1FY21, 82% of the shares held by promoters have been pledged, thus curbing the financial flexibility of the company. The current ratio for FY20 was 1.16x, recording a marginal improvement from 1.00x in FY19.

**Concentrated Customer and Supplier Base:**

The aggregate sales generated from the top clients amount to 57.48% of total sales (PY-66.37%) - of which top 2 contribute almost 32.96% (PY-40.21%) to the total sales, which shows high client concentration risk. Similarly, aggregate purchases from the top suppliers amount to 82.90% (PY-99.54%) of total purchases.-of which top 2 contribute almost 65.88% of total purchases

**Raw Material Volatility**

PEL mainly uses ram materials like PET-Chips, polyester yarn and polyester color 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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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. The raw material costs incurred by PEL declined from Rs 170.33 cr in FY19 to Rs 141.64 cr in FY20 due to a decline in crude oil (15%-20%) which is a key RM component for DDPY.

**Foreign Exchange Risk**:
PEL mostly exports DDPY to countries like Turkey, Egypt, Belgium, USA and certain EU countries. Exports in FY20 declined from Rs 60.44cr in FY19 to Rs 35.39cr in FY20. This is due to the shift in one of PEL's top clients. This client accounted for 15% of Total Sales in FY19 , accounted for only 9% of Total sales in FY20 and eventually shifted to a competitor. However, PEL reported that the client was back to purchasing goods from PEL in FY21.

**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 and Mr. Gangadharan Panicker, who have a combined work experience of more than fifty years in the textile segment.

**Stable operations with moderate profitability margins**
PEL has three product segments namely- Dope Dye Yarn(DDPY), Embroidered fabrics and laces(EB) and Bobbin Lace(BLU). DDPY contributes to nearly 83% of Total Sales with EB and BLU making a contribution of 15% and 2% to total sales respectively as per FY20 figures.
PEL's PBILDT has been relatively stable with a marginal decline(~2%) from Rs 20.95 cr in FY19 to Rs 20.54 cr in FY20 despite a 13.20% decline in Revenue from Rs 275.18 cr in FY19 to Rs 238.92 cr in FY20. The decline in revenue can be attributed to the degrowth in sales volume and exports of DDPY. Revenue from DDPY declined from Rs 229.74cr in FY19 to Rs 199.24cr in FY20 on account of a degrowth in volume and sales realization per unit. Total exports declined from Rs 60.44cr in FY19 to Rs 35.39cr in FY20. This is due to the shift in one of PEL's top clients.The PAT figure increased from Rs 4.13 cr in FY19 to Rs 8.28 cr in FY20. This can be attributed to the extra-ordinary profit of Rs 2.20 cr earned from the sale of property (sold at Rs 5.21 cr) and the decline in raw material costs from Rs 170.33 cr(~62% of sales) in FY19 to Rs 141.64 cr in FY20(~59% of sales).

**Improvement in capital structure and debt coverage metrics**
The overall gearing has improved from 0.90x in FY18 to 0.39x in FY20. The debt equity ratio has also improved from 0.68x in FY18 to 0.21x in FY20. This can be attributed to the increase in net worth from Rs 74.48 cr in FY18 to Rs 90.06 cr in FY20 on account of accretion to reserves and decline in total debts from Rs 66.75 cr in FY18 to Rs 34.79 cr in FY20 mainly on account of repayment of long term debt. The repayment of Long term debt from FY 18 to FY 20 has been approximately Rs 30 Crs. The PBILDT interest coverage for FY20 stood at 3.35x vis-à-vis 2.74x in FY19 and the Total Debt to GCA for FY20 was 2.05x vis-à-vis 4.32x in FY19.

**Industry Outlook:**
The textile and garment industry is a highly fragmented sector with integrated and non-integrated players from both domestic and other low cost producing countries. The textile sector closely follows the macroeconomic business cycles. The prices of raw materials and finished goods are determined by global demand-supply scenario and are not limited to only domestic factors. Hence, any shift in macroeconomic environment globally would have an impact on domestic textile industry.

COVID-19-Impact on the Textile Segment
The textiles industry in India was estimated at more than US$ 100 billion in January 2020. It is the second-largest employer after agriculture, providing employment to over 45 million people directly and 60 million people indirectly.
The Covid-19 pandemic is primarily expected to adversely impact exports and the domestic markets on account of the lockdown. The pandemic has affected the majority of India's export market (the US and EU together constitute for approximately, 60% of the total apparel exports from India in value terms), causing order cancellations/deferral of order leading to inventory build-up and expectation of slower realization of export receivables leading to higher working capital requirements.
Additionally, domestic consumption is also getting impacted due to all India closure with people focusing majorly on essential items and commodities. The migration of laborers could disrupt production can create issues in companies' supply chain cycles. Discretionary consumer spending would be impacted by the general slowdown in the economy, job losses/ salary cuts. Increased inventory levels and stretched receivables would result in liquidity issues.

**Liquidity Analysis: Poor**

The working capital cycle has increased to 45 days in FY20 from 37 days in FY19. This is on account of an increase in average inventory days from 45 days in FY19 to 55 days in FY20. The average monthly utilization of fund based limits for 12 months ended June 2020 was 93.71%. The company has positive cash flow from operations with the cash from operating activities at Rs 25.62 cr in FY20 vis-à-vis Rs 19.50 in FY19. The repayment obligation for FY21 has been revised from Rs. 7.49 crore(Rs 7.07cr-loan repayment and Rs 0.42cr-lease liability) to Rs 4.33 cr (Rs 3.91 cr-loan repayment and Rs 0.42cr-lease liability) due to the moratorium on payments from its lenders as part of the COVID-19 regulatory package announced by the RBI. As on 31-March-20, the cash balance with PEL was Rs 1.42 cr. PEL borrowed an additional amount of Rs 2.50 cr in FY20(Kotak Bank) and Rs 1.50cr in FY21(Union Bank Of India) to meet its working capital requirement. The current ratio for FY20 was 1.16x, recording a marginal improvement from 1.00x in FY19.

**Analytical approach:** Standalone

**Applicable Criteria**

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-Manmade Yarn Manufacturing Sector

**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. As on March 31, 2020 the company has installed capacity of Embroidery Laces and Fabrics (1521 mn stitches),Bobbin Lace (1,36,38,000 mtrs) and Dope dyed yarn (18200 MT). The company also has presence in retail through its subsidiary Hakoba Lifestyle Limited and operates outlets under brand name 'Hakoba'.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 275.18 | 238.92 |
| PBILDT | 20.95 | 20.54 |
| PAT | 4.13 | 8.28 |
| Overall gearing (times) | 0.68 | 0.39 |
| Interest coverage (times) | 1.60 | 1.93 |

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

**Any other information:** NA

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

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based-Long Term | - | - | - | 15.00 | CARE B; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 0.75 | CARE A4 |

**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. | Fund-based-Long Term | LT | 15.00 | CARE B; Stable | - | 1)CARE B; Stable (24-Oct-19) | - | - |
| 2. | Non-fund-based - ST-BG/LC | ST | 0.75 | CARE A4 | - | 1)CARE A4 (24-Oct-19) | - | - |

**Annexure 3: Complexity level of various instruments rated for this Company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based-Long Term | Simple |
| 2. | Non-fund-based - ST-BG/LC | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

## Contact us

**Media Contact**
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

**Analyst Contact**
Group Head Name – Soumya Dasgupta
Group Head Contact no.- 022- 67543505
Group Head Email ID- soumya.dasgupta@careratings.com

**Relationship Contact**
Name: Ankur Sachdeva
Contact no. : +91-22-6837 3468
Email ID : ankur.sachdeva@careratings.com

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