

Premier Synthetics Limited

March 04, 2020

Ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible Non-Cumulative Redeemable Preference Shares	9.50	CARE B (RPS); Stable (CARE Single B (Redeemable Preference Share)) Outlook:Stable	Reaffirmed
Total Facilities	9.50 (Rs. Nine crore and Fifty Lakhs only)		

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 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 Rating Sensitivities

1. Increase in revenue to Rs. 100 crore while improving its cash accruals to Rs. 4 crore.

Negative Rating Sensitivities

1. Fall in revenue by more than 30% on a sustained level.
2. Increase in overall gearing to more than 2.5x due to 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 modest scale having a total operating income of Rs46.41 crore in FY19 as compared to Rs 46.44 crore in FY18. Revenue concentration risk is significantly high with top five customers accounting for 97.44% of Total Sales in FY19 and 97.70% of Total Sales in FY18.

Susceptibility of profitability margins to volatility in input cost

Increased power costs, higher transaction costs, volatility in raw material prices, high cost of labor are the key factors affecting the profitability margins of PSL.

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 60-70 days. Operating cycle of the company has increased to 94 days in FY19 from 49 days in FY20 due to longer collection period from new clients. Collection period increased from 31 days in FY18 to 71 days in FY19.

²Complete definitions of the ratings assigned are available at www.careratings.com and in 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 analysis: Stretched

The operations of the company are working capital intensive with an operating cycle of 94 days, average receivable period of 71 days, average inventory period of 38 days and average creditor period of 14 days. The company has not availed any working capital limits and its free cash balance is merely Rs.0.04 crore.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology- Manufacturing Companies](#)

About the Company

Premier Synthetics Limited manufactures coarse denim fabric and supplies to customers across the country. Till FY17, PSL was engaged in manufacturing of 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)
Total operating income	46.44	46.41
PBILDT	1.14	1.93
PAT	1.16	2.07
Overall gearing (times)	1.85	1.71
Interest coverage (times)	8.56	24.01

A: Audited

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
Preference Shares-Non Convertible Redeemable Preference Share	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Preference Shares-Non Convertible Redeemable Preference Share	LT	9.50	CARE B (RPS); Stable	-	1)CARE B (RPS); Stable (08-Mar-19)	1)CARE B (RPS) (23-Nov-17)	1)CARE B (RPS) (29-Nov-16)

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.

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