

Press Release

Pioneer Leder Tex Private Limited (PLTPL)

9 January, 2018



Rating Downgraded

Total Bank Facilities Rated*	Rs. 16.80 Cr. (Enhanced from Rs.11.80 crore)
Long Term Rating	SMERA B / Outlook: Stable (Downgraded and Assigned)
Short Term Rating	SMERA A4 (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has downgraded the long-term rating of '**SMERA B** (read as SMERA B)' and reaffirmed the short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs. 11.80 crore bank facilities of PIONEER LEDER TEX PRIVATE LIMITED. SMERA has also assigned long-term rating of '**SMERA B** (read as SMERA B)' and short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs. 5.00 crore bank facilities. The outlook is '**Stable**'.

Pioneer Leder Tex Private Limited (PLTPL) was established in 1992 by Mr. A. Mohamed Farook, Mr. A. Abdul Kareem, Mr. A. Shafi Ahamed and Mrs. M. Regina Begum. The Chennai-based company is engaged in the manufacture and export of finished leather and has installed capacity of 6,00,000 sq. ft./month. PLTPL is also a registered exporter with the Government of India and Council for Leather Exports.

Key Rating Drivers

Strengths

Experience management: The Directors, Mr. Mohamed Farook and Mr. Abdul Kareem have more than two decades of experience in the leather industry. Such extensive experience has helped establish long term relations with suppliers and customers.

Moderate scale of operations: The revenue of the company stood moderate at Rs.20.71 crore in FY2017 compared to Rs.25.87 crore in FY2016.

Weaknesses

Weak financial risk profile: The weak financial risk profile is marked by low networth, gearing and low debt protection metrics. The net worth stood at Rs.3.46 crore in FY2017 as it declined from Rs 4.04 crore in FY2016, mainly on account of current year loss. The gearing stood high at 3.04 times as on 31 March, 2017, an increase from 2.88 times in FY2016. The Interest Coverage Ratio (ICR) stood at a moderate 1.07 times for FY2017 as against 1.62 times in FY2016. The Debt Service Coverage Ratio(DSCR) stood at 1.03 times in FY2017 compared to 1.60 times in FY2016.

Low profitability: The operating margin declined to a low of 4.70 per cent in FY2017 compared to 5.65 per cent in FY2016, due to increase in raw material prices. The PAT margin stood low at negative 2.80 per cent in FY2017 and 0.21 per cent in FY2016.

Working capital intensive operations: The working capital intensive operations are marked by high gross current assets days of 354 days in FY2017 as against 250 days in FY2016. This is mainly due to the high inventory days of 354 in FY2017 and 250 days in FY2016 which are due to the inherent cyclical in the leather industry.

Analytical approach

SMERA has considered the standalone business and financial risk profiles of PLTPL.

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities: <https://www.smerra.in/criteria-manufacturing.htm>

Outlook: Stable

SMERA believes that PLTPL will continue to maintain a Stable outlook over the medium term owing to its long standing presence in the leather industry and extensive experience of its promoters. The outlook may be revised to 'Positive' if the company scales up its revenue along with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the capital structure and margins further deteriorate leading to weak coverage ratios.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	20.71	25.87	31.64
EBITDA	Rs. Cr.	0.97	1.46	2.45
PAT	Rs. Cr.	-0.58	0.05	0.34
EBITDA Margin	(%)	4.70	5.65	7.76
PAT Margin	(%)	-2.80	0.21	1.07
ROCE	(%)	2.61	6.67	26.59
Total Debt/Tangible Net Worth	Times	3.04	2.88	3.80
PBDIT/Interest	Times	1.07	1.62	1.55
Total Debt/PBDIT	Times	10.62	7.24	4.98
Gross Current Assets (Days)	Days	354	250	222

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
8 Feb, 2017	Working Capital Demand Loan	Long Term	2.00	SMERA B+ (Indicative)
	Packing credit cum* FBP/FBN	Short Term	6.50	SMERA A4 (Indicative)
	Letter of Credit	Short Term	2.00	SMERA A4 (Indicative)
	Duty Drawback	Short Term	1.30	SMERA A4 (Indicative)
21 Aug, 2016	Working Capital Demand Loan	Long Term	2.00	SMERA B+/Stable (Assigned)
	Packing credit* cum FBP/FBN	Short Term	6.50	SMERA A4 (Assigned)
	Letter of Credit	Short Term	2.00	SMERA A4 (Assigned)
	Duty Drawback	Short Term	1.30	SMERA A4 (Assigned)

*Sublimit is duty drawback receivables of Rs.1.50 crore

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Working Capital Demand Loan	N.A	N.A	N.A	0.65	SMERA B/Stable (Downgraded)
Packing credit cum* FBP/FBN	N.A	N.A	N.A	10.00	SMERA A4 (Reaffirmed)
Standby Line of Credit	N.A	N.A	N.A	2.00	SMERA A4 (Assigned)
Proposed Long Term	N.A	N.A	N.A	1.40	SMERA B/Stable (Assigned)
Letter of Credit	N.A	N.A	N.A	2.75	SMERA A4 (Reaffirmed)

*Sublimit is duty drawback receivables of Rs.1.50 crore

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ABOUT SMERA

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