

Press Release

PRIMO FASHIONS

22 March, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.95 Cr.
Long Term Rating	SMERA BB-/Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BB-**' (read as SMERA double B minus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 9.95 crore bank facilities of Primo Fashions (PF). The outlook is '**Stable**'.

Primo Fashions, a Tirupur (Tamil Nadu) based firm was established in 2004 by Mr. M Parmasivan. The firm manufactures readymade garments and has ~ 300 stitching machines with capacity to produce 5000 pieces per day. The firm exports ~ 88 percent of its merchandise to European countries and the remaining 12 percent to other countries. In 2016, the promoters setup Prostar Textile Mills Pvt. Ltd., which is a backward integration project of PF and engaged in textile printing. The firm is in its nascent stage of operations and yet to demonstrate its performance.

Key Rating Drivers

Strengths

Experienced management

Mr. M Parmasivan, the proprietor has experience of over a decade in the textile industry. Prior to establishing PF, Mr. M Parmasivan was engaged in his family business of textile printing. This helped PF establish its position in the readymade garment business and benefit from repeat orders.

Weaknesses

Working capital intensive operations

PF's operations are working capital intensive marked by high Gross Current Asset (GCA) days of 216 in FY2017 compared to 182 days in FY2016. The GCA days are mainly dominated by high inventory days of 201 days in FY2017 compared to 160 days in FY2016. The entity follows a policy to hold raw material inventory for 4 -5 months. The average cash credit utilisation for six months period ending December 2017 stood at ~86 percent.

Customer concentration risk

PF manufactures a variety of readymade garments. In FY2017 ~ 86 per cent was sold to TDP Textiles Ltd (United Kingdom) exposing PF to customer concentration risk. However, in FY2018 the firm has reported drop in sales to TDP textile by 5 percent.

Revenue and profitability is susceptible to volatility in raw material prices, forex fluctuations and intense competition

The main raw material used by the firm is yarn and fabric. The prices of the same are highly volatile. Hence, any change in the prices of yarn has an adverse impact on the profitability of the firm. Further, the firm also exports around 90 percent of its sales to US, Europe and others. Hence, the profitability of the firm is exposed

to volatility in foreign exchange rates in the absence of adequate hedging mechanism. However, the firm has been able to improve its operating margins in FY2017 to 6.40 percent as against 5.99 percent in FY2016 and 6.40 percent in FY2015. PF operates in a highly competitive industry with limited entry barriers and large number of players in the domestic and overseas markets. As a result, PF has seen drop in revenue by 19 per cent in FY2017. The registered revenue of Rs 23.33 crore in FY2017 as against Rs. 28.18 crore in FY 2016.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of PF.

Outlook: Stable

SMERA believes that PF will maintain a stable outlook over the medium term owing to its experienced management and established track record. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenue while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenue, or deterioration in the liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	23.33	28.18	27.65
EBITDA	Rs. Cr.	1.49	1.69	1.77
PAT	Rs. Cr.	0.59	0.71	0.73
EBITDA Margin	(%)	6.40	5.99	6.40
PAT Margin	(%)	2.53	2.51	2.65
ROCE	(%)	8.43	9.56	19.09
Total Debt/Tangible Net Worth	Times	1.46	1.47	1.51
PBDIT/Interest	Times	1.51	1.40	1.35
Total Debt/PBDIT	Times	6.56	5.89	6.03
Gross Current Assets (Days)	Days	216	182	209

Status of non-cooperation with previous CRA (if applicable)- Not Applicable

Any other information: none

Applicable Criteria

- Default Recognition -<https://www.smera.in/criteria-default.htm>
- Manufacturing Entities -<https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments -<https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

NotApplicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB-/ Stable
Packing Credit	Not Applicable	Not Applicable	Not Applicable	7.45	SMERA A4+

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ABOUT SMERA

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