

Press Release
Pratibha Syntex Limited

November 06, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.505.81 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.505.81 crore bank facilities of Pratibha Syntex Limited. The outlook is '**Stable**'.

Pratibha Syntex Limited (PSL) was incorporated in 1982. The company promoted by Mr. Shiv Kumar Chaudhary and Mr. Shreyaskar Chaudhary is engaged in Manufacture & Export of Yarn (Cotton, Melange & Blended), Knitted Fabric (Grey & Dyed) and Knitted Garments (Casual & Inner Wear). PSL has its registered office in Mumbai and manufacturing facilities located at Pithampur (Madhya Pradesh).

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the PSL to arrive at this rating.

Key Rating Drivers

Strengths

• **Established track record and experienced management**

PSL has an established operational track record of three decades. The promoters, Mr. Shiv Kumar Chaudhary and Mr. Shreyaskar Chaudhary have an experience of over two decades in textile industry. The company on account of its established track record and promoter's experience has developed healthy relations with various domestic as well as international players such as C&A Buying GmbH & Co., Jockey International Inc., Levi Strauss, Nike, Zara among others.

• **Integrated operations and efficient procurement channel**

PSL has fully integrated business operations with manufacturing facilities for spinning, knitting, dyeing and garmenting. The company does contract farming of cotton on about 100,000 acres spread across Madhya Pradesh, Odisha, Rajasthan and Maharashtra. Around 40 percent of its total cotton requirements are met through contract farming. The rest cotton is purchased from spot market.

• **Moderate financial risk profile**

PSL has moderate financial risk profile marked by healthy tangible net worth of Rs.173.48 crore as on 31 March, 2018 as against Rs.134.50 crore as on 31 March, 2017. The gearing stood high at 2.84 times as on 31 March 2018 which as improved from 3.98 times as on 31 March, 2017. The debt of Rs.493.29 crore mainly consists of term loans of Rs.259.40 crore and working capital borrowings of Rs.233.89 crore as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 2.42 times for FY 2018 as against 2.28 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.34 times as on 31 March, 2018 as against 4.58 times as on 31 March 2017. Going forward, Acuite expects the financial risk profile company to improve in medium term in absence of major debt funded capex plans.

Weaknesses

• **Working capital intensive nature of operations**

PSL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 188 days in FY2018 compared to 170 days in FY2017. The GCA days are mainly dominated by high cotton inventory holding period of 130 days in FY2018 while the receivable stood in the range of 30-40 days. The working capital limits were 85 percent utilised for the past six months ended August 2018. Acuite believes that the efficient working management will be crucial to the company in order to maintain a stable credit profile.

• Declining revenue trend and uneven profitability

PSL registered revenues of Rs.786.51 crore in FY2018 as against Rs.799.36 crore in FY2017 as against Rs.828.49 crore in FY2016. Further the YTD revenues of FY2019 stood at Rs.300.00 crore till August 2018. The operating margins have shown uneven trend during the period under study. The operating margins declined to 15.91 percent in FY2018 from 17.51 percent in FY2017. This was mainly on account of reduction of export incentive from 8 percent to 4 percent.

Going forward, Acuite expects the margins to improve in medium term as the company is focusing more on designer wear clothes and will reduce the focus on inner wear which has lower margins.

• Volatility in raw material prices and government regulatory constraints

Cotton prices are regulated by the government through the MSP (Minimum Support Price) mechanism. However, the selling price of the output depends on the prevailing demand-supply situation, restricting bargaining power with customers, thereby impacting margins.

Cotton is a seasonal crop and the production of the same is highly dependent upon monsoons. Thus an inadequate monsoon may affect the availability of cotton.

• Exposed to risk associated to foreign exchange fluctuations

The exports of the PSL constituted around 70 percent of the total sales. As a result, the company's business is exposed to fluctuations in foreign exchange rate. The company hedges about 70 percent of its forex exposure to mitigate the same to an extent.

Acuite believes that PSL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic and overseas markets.

Outlook: Stable

Acuite believes the outlook on company will remain 'Stable' over the medium term on account of the promoters' extensive experience and established presence in the home textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	786.51	799.36	828.49
EBITDA	Rs. Cr.	125.12	139.99	140.28
PAT	Rs. Cr.	37.81	36.90	27.40
EBITDA Margin	(%)	15.91	17.51	16.93
PAT Margin	(%)	4.81	4.62	3.31
ROCE	(%)	13.66	14.59	27.07
Total Debt/Tangible Net Worth	Times	2.84	3.98	6.55
PBDIT/Interest	Times	2.42	2.28	2.07
Total Debt/PBDIT	Times	4.00	3.75	4.48
Gross Current Assets (Days)	Days	188	170	187

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Not Applicable

***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	58.00	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	40.34	ACUITE BBB/Stable
Cash Credit##	Not Applicable	Not Applicable	Not Applicable	53.18	ACUITE BBB/Stable
FBP/FBD/FBN	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+
Term Loan	Not Applicable	Not Applicable	Not Applicable	47.75	ACUITE BBB/Stable
PC/ PCFC/ FDB	Not Applicable	Not Applicable	Not Applicable	56.94	ACUITE A3+
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.05	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	27.35	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	16.37	ACUITE BBB/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.50	ACUITE BBB/Stable
WCDL	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB/Stable
PC/ PCFC###	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A3+
FBP/FBD	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.46	ACUITE BBB/Stable
PC/ PCFC/EBP/EBD/EBN	Not Applicable	Not Applicable	Not Applicable	19.64	ACUITE A3+
Term Loan	Not Applicable	Not Applicable	Not Applicable	67.73	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	13.76	ACUITE BBB/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.96	ACUITE BBB/Stable
Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.21	ACUITE A3+
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.27	ACUITE BBB/Stable
Letter of Credit####	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+

contains sublimit of EPC/PCFC/EBD/EBR to the extent of Rs.52.00 crore
 ## contains sublimit of EPC/PCFC to the extent of Rs.53.18 crore, WCDL to the extent of Rs.51.18 crore and
 FBP/FBD/FBN to the extent of Rs.43.60 crore
 ### fully interchangeable with CC facility of Rs.21.50 crore
 #### contains sublimit of BG to the extent of Rs.1.00 crore

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About Acuité Ratings & Research:

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