



**Press Release**  
**Pratibha Syntex Limited**  
**November 02, 2023**  
**Rating Upgraded**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	321.48	ACUITE BBB-   Stable   Upgraded	-
Bank Loan Ratings	184.33	-	ACUITE A3   Upgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	505.81	-	-

**Rating Rationale**

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.505.81 Cr. bank facilities of Pratibha Syntex Limited (PSL). The outlook is 'Stable'.

**Rationale for rating**

The rating takes into account the long track record of operations and established position of the company in the textile segment along with extensive experience of the promoters with reputed clientele. The rating also factors in the integrated operations of the company with efficient procurement channels through contract farming which is ~40 percent of its total requirement. Furthermore, the revenues of the company recorded a ~7.40% YoY growth to Rs. 861.48 Cr in FY23 as against Rs. 802.15 Cr in FY22 on account of stable demand of its products.

The rating also draws comfort from above average financial risk profile with healthy network and adequate liquidity position of the company. The rating takes into account the successful exit of the company from CDR and subsidies expected to be received from the government of Madhya Pradesh. However, the rating is constrained by continuous deterioration in operating profit margin from 15.71 percent in FY21 to 13.07 percent in FY22 and further declined to 9.55 percent in FY23 on account of increase in raw material prices during the period. Furthermore, the company reported Profit after Tax of only Rs.1.06 Cr during FY23 as against Rs.36.61 Cr. majorly on account of increase in finance costs and exceptional one-time expense in the form of recompense expenditure amounting to Rs. 16.65 Cr payable to lenders towards interest rate concessions allowed in the CDR. Furthermore, the operations of the company are working capital intensive in nature and is continuously exposed towards volatility in raw material prices and foreign currency fluctuations.

**About the Company**

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).

**Unsupported Rating**

Not Applicable

## Analytical Approach

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

## Key Rating Drivers

### Strengths

#### **Stable business risk profile with integrated operations and efficient procurement channel**

PSL has an established operational track record for more than three decades. The promoters of the company, Mr. Shiv Kumar Chaudhary and Mr. Shreyaskar Chaudhary have an experience of over two decades in textile industry and has helped the company to developed healthy relations with various reputed domestic as well as international players such as C&A Buying GmbH & Co., Jockey International Inc., Levi Strauss, Nike, Zara among others. Furthermore, PSL has fully integrated its 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 and the rest cotton is purchased from spot market. The stable business profile also supported the revenues of the company which recorded a ~7.40% YoY to Rs. 861.48 Cr in FY23 as against Rs. 802.15 Cr in FY22.

Acuité believes that the business risk profile of the company will continue to remain stable on account of established operations with experience promoters and integrated operations over the medium term.

#### **Successfully exited from CDR**

In FY12, the company witnessed liquidity crunch & suffered huge losses in FY12 & FY13. The main reason for the losses were severe recession in global textile industry. As a result, the company decided to approach their lenders led by SBI for restructuring the future debt obligations, without moratorium, on ballooning repayment mode, in a period of 10 years. The company had reinvented its business strategy by putting Garment as its front runner & eliminating external fabric sale. Over a period of time, the company was able to enhance yarn sale for captive consumption towards Garment manufacturing which improved the profitability to a large extent despite reduction in overall revenues. Therefore, the company successfully exited the CDR during FY23 by paying entire dues as per the terms and conditions. The recompense amount of Rs.16.65 Cr has been paid been to the lenders towards interest rate concessions allowed while sanctioning financial restructuring to the company in previous years.

#### **Above average financial risk profile**

The financial risk profile of the company is above average marked by healthy net worth, moderate gearing and moderate debt protection metrics. The tangible net worth of the company stood at Rs. 289.14 Cr in FY23 against Rs. 288.91 Cr in FY22. The total debt of the company stood at Rs.339.36 Cr in FY23 as against Rs. 329.58 Cr in FY22. The debt outstanding of the company in FY23 comprises of long-term debt of Rs.117.95 Cr and Rs. 221.41 Cr of short-term debt. The gearing of the company stood above unity at 1.17 times in FY23 as against 1.14 times in FY22. The TOL/TNW improved yet remained high at 1.63 times in FY23 as against 1.71 times in FY22. The debt protection metrics remained moderate with debt service coverage ratio of 1.05 times in FY23 as against 0.86 times in FY22. The interest coverage ratio stood at 1.91 times in FY23 as against 3.63 times in FY22. The DSCR stood low as the company prepaid some of its loan under the CDR. Further, the company was able to bridge this gap through unencumbered cash & bank balances and internal accruals. Furthermore, the company is planning to incur Rs. 123.58 Cr of capex towards installation of spinning, dyeing

and garment capacity and installation of roof top plant. The project is proposed to be funded through internal accruals of Rs. 38.58 Cr and term loan of Rs. 85 Cr which is not yet sanctioned. However, once the term loan is sanctioned and disbursed, the financial risk profile is expected to be impacted over the near term.

## **Weaknesses**

### **Exposure to risks associated with planned capital expenditure**

The company is planning to incur Rs.123.58 Cr of capex towards installation of spinning, dyeing and garment capacity and installation of roof top plant. The company already has existing land on which the proposed expansion is to be carried out. The project is proposed to be funded through internal accruals of Rs. 38.58 Cr and term loan of Rs. 85 Cr. Out of the internal accruals of Rs. 38.58 Cr, ~Rs.32.83 Cr has already been incurred towards capex in FY23 and further Rs.2.52 Cr was incurred till July 2023 and the balance of Rs. 3.23 Cr from the promoters will be met by H2FY24. However, the term loan proposed for the project is not yet sanctioned which increases the funding risk for the company. However, the term loan is expected to be sanctioned in H2FY24 and to be disbursed within the same period. The ongoing capex being incurred in PSL during FY24 is expected to commence its operations and generation of revenues from FY25. Acuite believes, the timely financial closure and commencement of operations from the new project will remain a key rating sensitivity going ahead.

### **Continuous deterioration in profitability margins**

The profitability margins of the company have witnessed continuous deterioration over the years. The operating profit margin of the company declined from 15.71 percent in FY21 to 13.07 percent in FY22 and further declined to 9.55 percent in FY23. The decline is majorly on account of increase in raw material prices during the period. Furthermore, the company reported Profit after Tax of only Rs.1.06 Cr during FY23 as against Rs.36.61 Cr. majorly on account of increase in finance costs and exceptional one-time expense in the form of recompense expenditure amounting to Rs. 16.65 Cr payable to lenders towards interest rate concessions allowed, pursuant to the Letter of Approval issued by CDR-EG while sanctioning financial restructuring to the company in earlier years. Acuite believes that the profitability margins will continue to remain subdued over the near term majorly on account of recession in the international markets such as Europe and US which might lead to delay in shipment of the company.

### **Working capital intensive in nature**

The operations of the company are working capital intensive in nature marked by GCA days which improved yet remained high at 193 days in FY23 as against 223 days in FY22. The inventory levels of the company stood at 99 days in FY23 as against 120 days in FY22. The company has receivable days of 51 days in FY23, as against 63 days in FY22. The creditor days of the company stood at 53 days in FY23 as against 87 days in FY22.

With a huge customer network, the management generally has to stock up sufficient amount of finished goods (around 35% of inventory) to ensure smooth flow of sales and marketing. Further, stock of raw materials which constitute to roughly 45% has to be kept in order to maintain uninterrupted production cycle to meet up the orders on time. The company generally gives a credit period of nearly 60-90 days to its customers and receives credit of 60 days from its suppliers. Further, the debtors more than six months accounted for only 10.05% of the total debtors and 1.34% of total revenue in FY 2023. The average bank limit utilisation by the company remained utilised at 90.27% for fund-based facilities and 56.60% for non-fund based facilities in FY23.

Acuite believes that the working capital management from the company will remain a key rating sensitivity going ahead.

### **Exposed to risk associated to foreign exchange fluctuations**

The exports of the PSL constituted around 60 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.

### **Rating Sensitivities**

- Significant improvement in scale of operations while maintaining profitability will be a key rating sensitivity
- Any elongation of the working capital cycle, leading to increased dependence on bank borrowing
- Timely financial closure for the upcoming project along with commence of its operations without any time or cost over runs

### **All Covenants**

None

### **Liquidity Position Adequate**

The company's liquidity is adequate, marked by moderate bank limit utilization and sufficient net cash accruals against its matured debt obligations. The liquidity position of the company remained adequate led by moderate utilization of working capital limits majorly on account of working capital-intensive nature of operations. The company generated net cash accruals of Rs.26.86 Cr. in FY23 against repayment obligations of Rs. 23.33 Cr. during the same period. The company's liquidity was supported by liquid bank deposits to the tune of Rs. 26.05 Cr. as on 31 March 2023 as against Rs.17.18 Cr. same period last year. The average bank limit utilisation by the company remained utilised at 90.27% for fund-based facilities and 56.60% for non-fund based facilities in FY23.

Acuité believes that the liquidity position of the company will continue to remain adequate on account of adequate cash accruals against matured debt obligations over the medium term

### **Outlook: Stable**

Acuité believes PSL will maintain 'Stable' business risk profile in the medium term on the back of established operational track record, long-standing experience of the promoters in the business and established relations with its customers. The outlook may be revised to 'Positive' in case of improvement in operating risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its operating risk profile due to lower than expected growth in revenues or decline in profitability.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	861.48	802.15
PAT	Rs. Cr.	1.06	36.61
PAT Margin	(%)	0.12	4.56
Total Debt/Tangible Net Worth	Times	1.17	1.14
PBDIT/Interest	Times	1.91	3.63

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

Not Applicable

## Any other information

None

## Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

## Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)



## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Aug 2023	Term Loan	Long Term	22.94	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	56.94	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	50.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	54.71	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Long Term	133.85	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	10.05	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	18.45	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	31.87	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	30.31	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	8.50	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	53.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	19.64	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	2.30	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	3.46	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	9.79	ACUITE BB+ (Downgraded and Issuer not co-operating*)
24 May 2022	Cash Credit	Long Term	3.46	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Cash Credit	Long Term	50.00	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Term Loan	Long Term	9.79	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Letter of Credit	Short Term	8.50	ACUITE A3+ (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	2.30	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Term Loan	Long Term	22.94	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Term Loan	Long Term	31.87	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Term Loan	Long Term	30.31	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Packing Credit	Short Term	19.64	ACUITE A3+ (Upgraded from ACUITE A4+)
	Term Loan	Long Term	9.27	ACUITE BBB (Withdrawn)
	Packing Credit	Short Term	54.71	ACUITE A3+ (Upgraded from ACUITE A4+)
		Long		ACUITE BBB   Stable (Upgraded from

	Term Loan	Term	18.45	ACUITE BB )
	Term Loan	Long Term	13.76	ACUITE BBB (Withdrawn)
	Proposed Bank Facility	Long Term	133.85	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Cash Credit	Long Term	53.00	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Cash Credit	Long Term	10.05	ACUITE BBB   Stable (Upgraded from ACUITE BB )
	Packing Credit	Short Term	56.94	ACUITE A3+ (Upgraded from ACUITE A4+)
14 Apr 2021	Cash Credit	Long Term	21.50	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	9.27	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	13.76	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	40.34	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	53.18	ACUITE BB (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	19.64	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	2.30	ACUITE BB (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	13.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	10.05	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	47.75	ACUITE BB (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	56.94	ACUITE A4+ (Issuer not co-operating*)
	Bills Discounting	Short Term	2.50	ACUITE A4+ (Issuer not co-operating*)
	Packing Credit	Short Term	20.21	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	67.73	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	58.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	3.46	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	27.35	ACUITE BB (Downgraded and Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	0.50	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	3.96	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	16.37	ACUITE BB (Downgraded and Issuer not co-operating*)
	Bills Discounting	Short Term	8.00	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	21.50	ACUITE BB (Issuer not co-operating*)



13 Jan 2020	Term Loan	Long Term	9.27	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	13.76	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	40.34	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	53.18	ACUITE BB (Issuer not co-operating*)
	Packing Credit	Short Term	19.64	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	2.30	ACUITE BB (Issuer not co-operating*)
	Packing Credit	Short Term	13.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	10.05	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	47.75	ACUITE BB (Issuer not co-operating*)
	Packing Credit	Short Term	56.94	ACUITE A4+ (Issuer not co-operating*)
	Bills Discounting	Short Term	2.50	ACUITE A4+ (Issuer not co-operating*)
	Packing Credit	Short Term	20.21	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	67.73	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	58.00	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	3.46	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	27.35	ACUITE BB (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	0.50	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	3.96	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	16.37	ACUITE BB (Issuer not co-operating*)
	Bills Discounting	Short Term	8.00	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Issuer not co-operating*)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.10	ACUITE BBB-   Stable   Upgraded
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.98	ACUITE BBB-   Stable   Upgraded
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.70	ACUITE BBB-   Stable   Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB-   Stable   Upgraded
Bank of Baroda	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	9.69	ACUITE BBB-   Stable   Upgraded
Bank of Baroda	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	6.20	ACUITE BBB-   Stable   Upgraded
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	6.30	ACUITE BBB-   Stable   Upgraded
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	12.46	ACUITE BBB-   Stable   Upgraded
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB-   Stable   Upgraded
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB-   Stable   Upgraded
Central Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	10.27	ACUITE BBB-   Stable   Upgraded
Central Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB-   Stable   Upgraded
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.50	ACUITE A3   Upgraded
State Bank	Not	Packing	Not	Not	Not			ACUITE

of India	Applicable	Credit	Applicable	Applicable	Applicable	Simple	47.00	A3   Upgraded
Canara Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	49.50	ACUITE A3   Upgraded
Bank of Baroda	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	33.21	ACUITE A3   Upgraded
Central Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	46.12	ACUITE A3   Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	188.78	ACUITE BBB-   Stable   Upgraded

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### About Acuité Ratings & Research

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