

Press Release

Prafful Overseas Private Limited

April 13, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 144.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.144.00 crore bank facilities of Prafful Overseas Pvt. Ltd. The outlook is '**Stable**'.

The ratings assigned to Prafful Overseas Pvt. Ltd. take into account established presence of around 4 decades in the textile business, experienced management, sustainable operating margin, moderate financial risk profile and improved working capital efficiency. The ratings, however, are constrained by high supplier concentration, susceptibility to fluctuation in raw material prices and high competitive intensity.

About the company

Prafful Overseas Pvt. Ltd. (POPL) was incorporated in 1993 by Aggarwal family. The Surat-based company is primarily engaged in production of nylon filament yarn and nylon mono yarn with annual production capacity of 16,800 metric tons. The company also undertakes fabric embroidery work.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Established track record of operations and experienced management**

POPL was established in 1993 by Aggarwal family, which is into the textile business since past 4 decades. POPL was earlier engaged in processing of fabrics including fabric embroidery. Later in 2009, the company started manufacturing of nylon yarn. The company has two variants of nylon yarn viz. fully drawn filament and mono filament. Mr. Narain Aggarwal, managing director of POPL has over 38 years of experience in the textile business. Over the years, under the leadership of Mr. Aggarwal, POPL has expanded scale of its nylon yarn operations by expanding the manufacturing capacity in the past few years. From 5,400 metric tons of annual nylon yarn production capacity in March 2009, the company increased the production capacity to 9,600 metric tons in 2012 and further to 16,800 metric tons per annum in FY19. POPL is now amongst the top nylon filament yarn manufacturers in the country.

The company's operating revenue rose at a compounded annual growth rate of over 13 per cent during the last two years ending March 31, 2020 to Rs.364.70 crore. This apart, POPL, over the years, has also established long-standing relationship of 7 to 15 years with many of its top suppliers and customers.

Acuité believes that an established presence in the textile sector and experienced management would continue to support POPL's growth even going ahead.

- **Sustainable operating margin**

POPL has been able to maintain its operating margin above 10per cent level in the last three years ending March 31, 2020, despite some moderation. In FY20, the company's EBITDA margin stood at 10.78 per cent compared to 12.05per cent in FY19. The fall in EBITDA margin was on the back of lower sales realization (down ~11per cent in FY20). Due to higher interest cost, the company's net profit margin stood relatively lower level of 1.40per cent in FY20, albeit improved from 0.88per cent in FY19.

Going ahead, the company's EBITDA margin is expected to remain in the range of 10-12per cent in the medium term. Cost efficiency measures like power purchase agreement resulting in around 15per cent savings in the power cost are expected to protect the company's operating margin. While, in FY21, the company would see a sharp expansion in EBTIDA margin to around 14.7 per cent mainly led by improved realization and a sharp revival in demand.

- **Moderate financial risk profile**

POPL has a moderate financial risk profile marked by an increase in net worth, moderate gearing level and debt protection matrix. The company's net worth, as on March 31, 2020, stood at Rs.108.55 crore compared to Rs.103.43 crore as on March 31, 2019.

The company's gearing level (debt to equity ratio) has been continuously improving since past three years ending March 31, 2020. From 1.61 times as on March 31, 2018, POPL's debt to equity ratio improved to 1.43 times as on March 31, 2019 and further to 1.20 times as on March 31, 2020. The improvement in debt to equity ratio was largely driven by lower debt levels. The company's total debt stood at Rs.130.36 crore as on March 31, 2020 against Rs.148.31 crore as on March 31, 2019. The total debt as on March 31, 2020 comprises long-term debt of Rs.61.77 crore, unsecured loans from directors/related parties of Rs.22.02 crore and short-term debt of Rs.46.57 crore. Acuité expects POPL's gearing level to improve further, provided no significant debt- funded capex. Debt to equity ratio is expected to stand below unity over a medium term.

Interest coverage ratio (ICR) of POPL has remained in the moderate range of 2.5-3.5 times in the last three years ending March 31, 2020. In FY20, ICR stood at 2.48 times compared to 2.92 times in FY19. Debt service coverage ratio (DSCR) moderated to around one in FY20 and FY19 from 3 times in FY18. This was due to the increase in term debt obligations as the company had undergone capacity expansion in FY19, which was funded by debt. Acuité believes that both the coverage indicators would improve gradually from FY20 levels. While ICR would remain around 3 time level over a medium term, DSCR would increase to around 1.5 times by FY23.

- **Improved working capital efficiency**

Though POPL has moderate working capital intensity, the efficiency has been improving since last two years ending March 31, 2020. From 201 days for FY18, the company's gross current asset (GCA) days improved to 173 for FY19 and further to 159 for FY20. This was mainly led by improvement in inventory levels. Inventory days of the company stood at 79 for FY20 compared to 92 and 108 for FY19 and FY18, respectively. While the company's debtor days, for FY20, remained stagnant at year-ago level of 75, creditor days came down to 67 for FY20 from 79 for FY19. While In FY21, GCA days would get stretched due to Covid-19-led disruptions, it would remain around 165-170 during FY22-FY23.

Weaknesses

- **High supplier concentration**

POPL has high supplier concentration with top ten suppliers accounting for around 75per cent of its total purchases in FY20. Moreover, the company is heavily dependent on a single supplier (~41 per cent of total purchases during April '20 to January '21) for purchases of its key raw material i.e. nylon chips. Thus, any supply disruptions from a few suppliers would negatively impact the overall operating performance of the company. Although, long-standing relationship of around 10-15 years with many of the top suppliers offers some comfort.

- **Susceptibility to fluctuations in raw material prices**

POPL's profit margins are susceptible to fluctuations in the prices of major raw material i.e. nylon chips, which are crude oil derivate. Therefore, sudden change in crude oil prices would have strong impact on the company's overall profit position.

- **High competitive intensity although strong presence in textile hub**

Around 80per cent of POPL's sales are from Gujarat (mainly from and around Surat), which is the textile hub of India. The state produces around 30per cent and 56per cent of the country's total production of cotton and denim, respectively. Besides, the state has around 38per cent share in the manufacturing of man-made filament fabric and 30per cent in woven fabric. However, the textile sector is highly fragmented with presence of lot of unorganized players, which restricts pricing power of organized players like POPL.

Liquidity Position-Adequate

POPL has adequate liquidity. The company generated net cash accruals of Rs.24.99 crore for FY20, which was at par with its maturing debt obligations for the same period. Going ahead, cash accruals of the company are estimated to be in range of Rs.23.73 crore to Rs.29.50 crore for FY21 to FY23 against the maturing debt obligations of Rs.15.35 crore to Rs.23.27 crore for the same period. However, Acuité derives comfort from unutilized fund-based bank limits of over 28per cent in the last 6 months ending February 2021. The company maintained unencumbered cash and bank balances of Rs.0.12 crore as on March 31, 2020 and its current ratio stood moderate at 1.41 times as on 31 March, 20.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accruals to its maturing debt obligations and moderate fund-based bank limit utilization.

Rating Sensitivities

- Elongation of working capital cycle
- Inability to sustain operating margin

Outlook: Stable

Acuité believes that POPL would maintain 'Stable' outlook on the back of established presence in the textile sector, experienced management and rising scale of operations. The outlook may be revised to 'Positive' in case the company reports higher than expected growth in revenue and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of lower-than-estimated growth in revenue and profitability, resulting in deterioration in financial risk profile and liquidity position of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	364.70	346.31
PAT	Rs. Cr.	5.12	3.04
PAT Margin	(%)	1.40	0.88
Total Debt/Tangible Net Worth	Times	1.20	1.43
PBDIT/Interest	Times	2.48	2.92

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

None

Any other information

Not Applicable

Any Material Covenants

- Financial ratios:

DSCR	1.57 times
Interest coverage ratio	2.94 times
Fixed asset coverage ratio	2.16 times
Debt/EBITDA	2.42 times

- Promoters to explore for fresh infusion of capital in the company
- Company to explore the conversion of unsecured loans of Rs.4.92 crore into equity

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.10	ACUITE BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.30	ACUITE BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/ Stable (Assigned)
Term Loan	25-Oct-2016	12.55	31-Oct-2023	7.22	ACUITE BBB-/ Stable (Assigned)
Term Loan	03-Jul-2017	14.05	31-Oct-2023	6.60	ACUITE BBB-/ Stable (Assigned)
Term Loan	22-Mar-2017	13.35	31-Dec-2024	9.21	ACUITE BBB-/ Stable (Assigned)
Term Loan	18-Jul-2017	9.50	30-Nov-2022	1.58	ACUITE BBB-/ Stable (Assigned)
Term Loan	27-Mar-2020	6.95	31-Mar-2022	1.44	ACUITE BBB-/ Stable (Assigned)
Term Loan	06-May-2020	8.35	30-Apr-2022	1.13	ACUITE BBB-/ Stable (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	0.42	ACUITE BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	31.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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