

Press Release

Praful Overseas Private Limited

June 23, 2022



Rating Reaffirmed & Partly Withdrawn

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|--------------------------------------|------------------------|
| Bank Loan Ratings | 1.13 | ACUITE BBB- Reaffirmed & Withdrawn | - |
| Bank Loan Ratings | 67.50 | ACUITE BBB- Stable Reaffirmed | - |
| Bank Loan Ratings | 76.50 | - | ACUITE A3 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 144.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 1.13 | - | - |

Rating Rationale

Acuite has reaffirmed 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 Praful Overseas Private Limited (POPL). The outlook is '**Stable**'.

Further, Acuite has reaffirmed and withdrawn its long-term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs.1.13 crore bank facilities of Praful Overseas Private Limited (POPL). The rating is being withdrawn on account of request received from the company and NOC received from the banker as per Acuite's withdrawal policy.

Rationale for rating reaffirmation

The rating reaffirmation takes into account the improvement in the scale of operations, moderate financial risk profile and debt protection indicators of POPL. The company recorded revenues close to Rs. 396 Cr. during FY2022(Prov.) against Rs. 279 Cr. in FY2021. Further, the rating continues to draw comfort from management's extensive experience of over four decades in the textile industry. The rating is however constrained by working capital intensive operations, and reduction in working capital limits adversely affecting the POPL's liquidity profile. Working capital limit utilization remained high at over 95 percent for the six month period ended April 2022. Any elongation in working capital cycle leading to further decline in liquidity profile will remain a key rating sensitivity.

About the Company

Praful 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.

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

Comfortable Financial risk profile

POPL has comfortable financial risk profile marked by increase in net worth, low gearing level and debt protection metrics. The company's net worth stood at Rs.118.55 crore as on March 31, 2022(Prov.) compared to Rs.111.07 crore as on March 31, 2021 and Rs.108.88 crore as on March 31, 2020. The company's gearing level (debt to equity ratio) has been continuously improving since past three years. From 1.20 times as on March 31, 2020, POPL's debt to equity ratio improved to 1.10 times as on March 31, 2021 and further to 0.98 times as on March 31, 2022 (Prov.) The company's total debt stood at Rs.115.73 crore as on March 31, 2022 (Prov.) comprising long-term debt of around Rs.56 crore, unsecured loans from directors/related parties of Rs.26.67 crore and short-term debt of Rs.32.50 crore. The gearing is further expected to improve in the absence of any additional debt funded capital expansion. Interest coverage ratio (ICR) of POPL has remained in the moderate range of 2.36- 2.70 times in the last three years ending March 31, 2022(Prov.). In FY2022, ICR stood at 2.70 times compared to 2.36 times in FY2021. Debt service coverage ratio (DSCR), moderated to around 1.26 in FY2022(Prov.) and 1.10 times in FY2021. Going ahead, both the coverage indicators are expected to improve. While ICR would remain around 2.5-3.00 time level and DSCR would remain at similar range during FY2023.

Weaknesses

Intensive nature of working capital operations and highly utilised working capital limits

POPL has intensive working capital operations. The company's gross current asset (GCA) days stood at 169 days in FY2022(Prov.) against 200 days in FY2021. The GCA is led by higher inventory days of 89 along with higher debtor days of 82. The debtor days during FY2022 have improved as compared to FY2021 of 100 days. However, the company is not able to receive extended concession in the credit period marked by average creditor days of 62-67 during the last three years ended FY2022. This makes POPL dependent on external bank limits to fund its working capital requirements. However, the company has not been able to get increased working capital limits with increasing scale of operations adversely impacting its liquidity profile. POPL's bank utilization remained high at over 95 percent for last 6 month period ended April 2022.

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. The same is also reflected in its volatile operating margins. The company reported operating margin of 10.78 percent during FY2020, 12.49

percent during FY2021 and 10.86 percent during FY2022(Prov.) Any sudden change in crude oil prices has strong impact on the company's overall profit position making it susceptible to the raw material prices.

High supplier concentration

POPL has high supplier concentration with top five suppliers accounting for around 56 per cent of its total purchases in FY22. Moreover, the company is heavily dependent on few of its suppliers (~51 per cent of total purchases during FY22) 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.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

POPL has adequate liquidity. The company generated net cash accruals of Rs.24.57 crore for FY2022(Prov.), against its maturing debt obligations of Rs 16.23 crore for the same period. Going ahead, cash accruals of the company are estimated to remain in range of Rs.25 crore to Rs.27 crore for FY2023 against the maturing debt obligations of around Rs.20 crore for the same period. The NCA/TD has been moderate at 0.21 times in FY2022(Prov.) against 0.16 times in FY2021. However, the working capital limits have remained utilised at over 95% during the last six months ended April 2022. The current ratio stood moderate at 1.78 times as on March 31, 2022 (Prov.) against 1.69 times as on March 31, 2021. The improvement in the current ratio is mainly led by higher inventory and receivables.

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 while maintaining stable margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-estimated growth in revenues and operating profitability or elongation in working capital cycle resulting in deterioration of liquidity profile of the company.

Other Factors affecting Rating

Not Applicable

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 279.20 | 364.70 |
| PAT | Rs. Cr. | 2.52 | 5.12 |
| PAT Margin | (%) | 0.90 | 1.40 |
| Total Debt/Tangible Net Worth | Times | 1.10 | 1.20 |
| PBDIT/Interest | Times | 2.36 | 2.48 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 13 Apr 2021 | Term Loan | Long Term | 1.44 | ACUITE BBB- Stable (Assigned) |
| | Bank Guarantee | Short Term | 6.50 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 17.10 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 1.00 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 1.58 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 7.22 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 17.00 | ACUITE A3 (Assigned) |
| | Term Loan | Long Term | 9.21 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 10.30 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 1.13 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 13.50 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 15.00 | ACUITE A3 (Assigned) |
| | Proposed Bank Facility | Long Term | 0.42 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 31.00 | ACUITE A3 (Assigned) |
| | Term Loan | Long Term | 6.60 | ACUITE BBB- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|-----------------------|------------------|----------------|----------------|-------------------|--|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 6.50 | ACUITE A3 Reaffirmed |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 14.00 | ACUITE BBB- Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 7.00 | ACUITE BBB- Stable Reaffirmed |
| Canara Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 9.00 | ACUITE BBB- Stable Reaffirmed |
| Indian Overseas Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE BBB- Stable Reaffirmed |
| State Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 5.17 | ACUITE BBB- Stable Reaffirmed |
| State Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 2.76 | ACUITE BBB- Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 3.45 | ACUITE BBB- Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 1.75 | ACUITE BBB- Stable Reaffirmed |
| Canara Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 4.06 | ACUITE BBB- Stable Reaffirmed |
| Canara Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 2.88 | ACUITE BBB- Stable Reaffirmed |
| Indian Overseas Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 0.31 | ACUITE BBB- Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 17.00 | ACUITE A3 Reaffirmed |
| Canara Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 17.00 | ACUITE A3 |

| | | | | | | | |
|--|----------------|----------------------------------|----------------|----------------|----------------|-------|--------------------------------------|
| | | | | | | | Reaffirmed |
| Indian Overseas Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A3 Reaffirmed |
| State Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 31.00 | ACUITE A3 Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.68 | ACUITE BBB- Stable Reaffirmed |
| State Bank of India | Not Applicable | Term Loan | 25-10-2016 | 12.55 | 31-10-2023 | 3.42 | ACUITE BBB- Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Term Loan | 03-07-2017 | 14.05 | 31-10-2023 | 3.18 | ACUITE BBB- Stable Reaffirmed |
| Canara Bank | Not Applicable | Term Loan | 22-03-2017 | 13.35 | 31-12-2024 | 5.58 | ACUITE BBB- Stable Reaffirmed |
| Small Industries Development Bank of India | Not Applicable | Term Loan | 18-07-2017 | 9.50 | 30-11-2022 | 1.01 | ACUITE BBB- Stable Reaffirmed |
| Siemens Financial Services Pvt. Ltd. | Not Applicable | Term Loan | Not available | Not available | Not available | 1.50 | ACUITE BBB- Stable Reaffirmed |
| Siemens Financial Services Pvt. Ltd. | Not Applicable | Term Loan | Not available | Not available | Not available | 0.75 | ACUITE BBB- Stable Reaffirmed |
| Canara Bank | Not Applicable | Term Loan | 06-05-2020 | 8.35 | 30-04-2022 | 1.13 | ACUITE BBB- Reaffirmed & Withdrawn |

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About Acuité Ratings & Research

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