Press Release
PAN SYNTHETICS PRIVATE LIMITED
September 04, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	63.12	ACUITE BB | Stable | Downgraded	-
Bank Loan Ratings	88.00	-	ACUITE A4+ | Downgraded
Total Outstanding Quantum (Rs. Cr)	151.12	-	-

Rating Rationale
Acuité has downgraded its long-term rating to '**ACUITE BB' (read as ACUITE double B)** from '**ACUITE BBB-' (read as ACUITE Triple B minus)** and short term rating to **'ACUITE A4+' (read as ACUITE A four plus)** from **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs. 151.12 crore bank facilities of PAN Synthetics Private Limited (PSPL). The outlook is '**Stable'.**

Rationale for downgrade:
The rating downgrade takes into account deterioration in operative revenue in FY2024 (Prov), below financial risk profile, and stretched liquidity. Group has recorded the operating income of Rs. 670.50 Cr. in FY2024 (Prov) as compared to Rs. 960.70 Cr. in FY2023. Group's debt protection metrics are below average, with DSCR of 0.92 times as on March 31, 2024 (Prov), respectively, as against (0.10) times as on March 31, 2023, respectively. Liquidity is stretched with inadequate NCAs to its repayment obligations. Further, it takes into account significant deviation in profitability in FY2023 audited financials as compared to YTD figures provided during the last rating exercise.

The rating also considers the experienced management and an established track record of operations and efficient working capital management.

The rating, however, remains constrained by thin profitability margins, susceptibility to cyclicality in the plastic industry and end-user industry.

About the Company
Pan Synthetics Private Limited (PSPL) started its operations in 1995 and engaged in the trading of polymers and flexible packaging films for various products such as films, foil, granules, and

resin. The company is currently promoted by Mr. Prem Jain, Ms. Pramila Minni, Mr. Tanmayy Minni, and Ms. Shejal Tanmayy Minni as its directors. The company caters to industries such as FMCG, textiles, industrial packing, construction, automotive, and agriculture. It operates from its registered office in Bangalore and has a customer presence across India.

About the Group
Ganapati Fishing Lines Private Limited is a Private limited company incorporated on 23rd June 1988 having its registered office in Bangalore, Karnataka. The company is promoted by Mr. Prem Jain, Ms. Pramila Minni, Mr. Tanmayy Minni and Ms. Shejal Tanmayy Minni and is engaged in trading of flexible packaging films like Polyester, BOPP films, aluminium foil and other polymers.

Narayani Plastics Private Limited (Erstwhile Sri Narayani Plastics Private Limited) incorporated in 2011 with Mr. Prem Jain, Ms. Pramila Minni and Mr. Tanmayy Minni as its directors. Later in 2014, Ms. Shejal Tanmayy Minni was inducted as a director. The company operates as a trader of flexible packaging films like Polyester, BOPP films, aluminium foil and other polymers having its registered office located in Bangalore.

Unsupported Rating
Not applicable

Analytical Approach

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
Acuité has consolidated the business and financial risk profiles of PAN Synthetics Private Limited (PSPL), Ganapati Fishing Lines Private Limited(GFPL) and Narayani Plastics Private Limited (Erstwhile Sri Narayani Plastics Private Limited) (NPPL) together referred as PAN group(PG) or group. The consolidation is in the view of common management, similar line of business and financial linkages between entities.

Key Rating Drivers

Strengths

- **Experienced management and an established track record of operations**

  The group has more than two and a half decades of experience in the trading of plastic products, polymers, and flexible packing films. The group is currently managed by Mr. Prem Jain, Mrs. Premila Minni, Mr. Tanmayy Minni, and Mrs. Shejal Tanmayya Minni. The extensive experience of the promotors has helped the group establish long-term relationships with its customers and suppliers for repeat orders. The group's customers include companies in the FMCG, textile, industrial packing, construction, automotive, and agriculture sectors. PAN Group procures a large variety of polymers and flexi packing products manufactured by reputed suppliers and trades them to various customers as per their requirements with the help of its distribution centres across India. Major products of trade for the group include polyester films, CPP films, BOPP films, aluminium foils, various types of polyethylene granules, and polypropylene granules. Acuite believes that PG may continue to benefit from its established track record of operations and longstanding relationships with its customers and suppliers.

- **Efficient working capital management**

  The group's working capital management is efficient, with gross current assets days (GCA) of 67 days in FY2024 (Prov) as against 75 days in FY2023. Inventory days stood at 41 days in FY2024 (Prov) as against 33 days in FY2023. The debtor days stood at 13 days in FY2024 (Prov) as against 23 days in FY2023. Debtor days have improved on account of a change in credit terms with the customers; the group is accepting advance payments, and the credit period was reduced to 20–25 days. Subsequently, the payable period stood at 4 days in FY2024 (Prov) as against 10 days in FY2023, respectively. Payable improved on account of advance payments made to suppliers. Further, the average bank limit utilization in the last ten months ended July, 24 remained at ~43 percent for fund-based limits and 50 percent for non-fund-based limits. Acuité believes that the working capital management of the group will remain a key rating sensitivity over the medium term.

Weaknesses

- **Decline in operating revenue and thin profitability margins**

  The group has recorded a YOY degrowth of 30.21 percent in operating income, which stood at Rs. 670.50 Cr. in FY2024 (Prov) as compared to Rs. 960.70 Cr. in FY2023. The degrowth in the operating revenue is on account of the drop in the polyester and BOPP film trading. Further operating margin stood at 1.50 percent in FY2024 (Prov) as against a negative margin of 0.22 percent in FY2023. Negative operating margins in FY2023 are due to losses in polyester and BOPP film trading. The group's operating profit margin remained thin at 1.50 percent in FY2024 (Prov), due to the trading nature of the business. Also, the margins remain susceptible to fluctuations in traded goods prices. The domestic plastic producers are substantially dependent on imports of petroleum products, and, hence, any supply-side issue could have a material impact on trading operations and the profitability of the group. Acuité believes that scaling up the operations and maintaining profitability will be key factor sensitivity over the near term.

- **Below average financial risk profile**

The financial risk profile of the group has remained below average, with below-average debt protection metrics, moderate net worth, and low gearing. The net worth of the group stood at Rs.69.82 Cr. and Rs.68.80 Cr. as on March 31, 2024 (Prov) and 2023, respectively. The improvement in the net worth is stagnant due to deterioration in profitability margins. The gearing of the group stood at 1.15 times as on March 31, 2024 (Prov), as against 1.96 times as on March 31, 2023. The group's debt protection metrics are below average. – Interest coverage ratio and debt service coverage ratio stood at 1.23 times and 0.92 times as on March 31, 2024 (Prov), respectively, as against (0.11) times and (0.10) times as on March 31, 2023, respectively. TOL/TNW stood at 1.31 times and 2.41 times as on March 31, 2024 (Prov), and 2023, respectively. The debt to EBITDA of the group stood at 7.11 times as on March 31, 2024 (prov) as against (177.60) times as on March 31, 2023. Acuité believes that the improvement in the financial risk profile of the group going forward will remain a key rating sensitivity.

- **Susceptibility to cyclicality in the plastic industry and end-user industry**

The domestic plastics sector is characterized by demand cyclicality, volatility in raw material and metal prices, high regulatory risk, and the risk of imports. Group operates in the cyclical plastic industry, thus making it vulnerable to downturns in industry demand, leading to declines in realizations and profitability. Moreover, the bulk of its revenue is derived from cyclical domestic end-use industries; demand depends on economic growth and consumer sentiments, and thus any decline in demand can also have an adverse impact on sales and profitability for the group. Demand for plastic products depends on the level of construction and infrastructure activities and any movement in economic cycles. Furthermore, the plastics industry remains exposed to global crude oil prices. While the cost-efficient and integrated domestic operations of the company partially cushion profitability against cyclical downturns, it will remain exposed to inherent price and demand volatility in the plastic industry.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Sustainable improvement in Profitability, Leverage and Solvency position of the group.
- Any deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Liquidity Position: Stretched

Group's liquidity is stretched with inadequate NCAs to its repayment obligations. Group generated cash accruals of Rs. 2.23 Cr. during FY2024 (Prov), while its maturing debt obligations are Rs.3.22 Cr. during the same period. Further, the shortfall in debt obligations will be met by the infusion of USL by promoters, and the same provides some comfort to the liquidity profile for the group. The cash accruals of the company are estimated to remain around Rs.6.25-7.98 Cr. during FY2025-26, while their repayment obligations are Rs.0.53-3.34 Cr. during the same period. The group has maintained unencumbered cash and bank balances Rs.1.25 Cr and the current ratio stood at 1.61 times as on March 31, 2024 (prov). Further, the average bank limit utilization in the last ten months ended July, 24 remained at ~43 percent for fund-based limits and 50 percent for non-fund-based limits. Acuité expects that the liquidity of the group is likely to be adequate over the medium term on account of moderate cash accruals with their repayment obligations.

Outlook: Stable

Acuité believes that PG will maintain a 'stable' outlook over the medium term due to experienced management and an established track record of operations. The rating may be revised to 'Positive' if the company registers expected or higher-than-expected growth in revenues and profitability and improvement in its financial risk profile. Conversely, the outlook may be revised to 'negative' in case of the company's inability to achieve the expected increase in revenue and profitability or deterioration in the overall financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	670.50	960.70
PAT	Rs. Cr.	0.97	(9.12)
PAT Margin	(%)	0.15	(0.95)
Total Debt/Tangible Net Worth	Times	1.15	1.96
PBDIT/Interest	Times	1.23	(0.11)

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

Not applicable

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Trading Entities: https://www.acuite.in/view-rating-criteria-61.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Jun 2023	Term Loan	Long Term	0.24	ACUITE BBB- | Stable (Assigned)
	Working Capital Term Loan	Long Term	9.88	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- | Stable (Assigned)
	Working Capital Term Loan	Long Term	5.00	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BBB- | Stable (Assigned)
	Letter of Credit	Short Term	28.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BB | Stable | Downgraded (from ACUITE BBB-)
Indusind Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	28.00	ACUITE A4+ | Downgraded (from ACUITE A3+)
Standard Chartered Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A4+ | Downgraded (from ACUITE A3+)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	37.29	ACUITE BB | Stable | Downgraded (from ACUITE BBB-)
Kotak Mahindra Bank	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE A4+ | Downgraded (from ACUITE A3+)
Indusind Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	28 Feb 2027	Simple	5.83	ACUITE BB | Stable | Downgraded (from ACUITE BBB-)

***Standard Chartered Bank** : Overdraft (Sublimit of LC) Rs. (8.00) Cr
Working capital demand loan (Sublimit of LC) Rs. (20.00) Cr

***Kotak Mahindra Bank** : Cash credit (Sublimit of Working capital demand loan) Rs(20.00) Cr
Letter of credit (Sublimit of Working capital demand loan) Rs.(38.00) Cr

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr.No.	Company Name
1	Pan Synthetics Private Limited
2	Narayani Plastics Private Limited
3	Ganapati Fishing Lines Private Limited

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.