Press Release

Prafful Overseas Private Limited

September 16, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Fund Based Limits	45.30	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
2.	Long Term Debt – Term Loan	34.58	
3.	Short Term Non- Fund Based Facilities	76.50	IVR A4+ (IVR A Four Plus)
	Total	**156.38**	

Details of Facilities are in Annexure I

Detailed Rationale

The rating derives strength from experienced promoters, established relationships with clients and suppliers & moderate gearing and debt coverage indicators. The rating however is constrained by stretched liquidity position leading to delays in servicing of debt obligations, fluctuating top line, raw material price risk, foreign exchange risk, working capital intensive operations, changes in government policies and highly competitive nature of the industry. Scale of operation and adequate generation of cash flows, timely servicing of debt obligations, working capital management & government regulations and policies are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoters

Prafful Overseas Private Limited (POPL) was promoted by the Aggarwal family in 1990. POPL is a part of Surat based Prafful group, which has been in the textile industry for over four decades. The group has business interests in manufacturing, processing (dyeing), printing and embroidery of fabrics. The day to day operation of the company is managed by Mr. Sri Narain Aggarwal and his son, Mr. Raveesh Aggarwal. They are well supported by experienced key managerial personnel of the company.

Established relationships with clients and suppliers

POPL has established relationship with its clients. The top five clients contribute to around 53% of the total sales indicating a moderately concentrated client base. The company has built up an excellent customer base over the years by supplying nylon yarns of superior quality. The major raw material for the company is nylon chip, which is primarily imported from Taiwan. The company has long term business relations and established supply arrangements for procuring the same.

Moderate gearing and debt coverage indicators

The overall gearing ratio of the company was moderate at 1.40x as on March 31, 2019. The long term debt to equity ratio stood at 0.99x as on March 31, 2019. Total debt to gross cash accruals and other debt coverage indicators were also moderate as on last three account closing days. The interest coverage ratio comfortably stood at 2.98x in FY19 (PY: 3.54x).

Key Rating Weaknesses

Stretched liquidity position leading to delays in servicing of debt obligations

The liquidity profile of the company weakened due to stretched working capital cycle, almost full utilization of limits, blockage of working capital in the form of accumulated input tax credit due to inverted duty structure (GST) along with less than anticipated cash accruals from additional capacity leading to devolvement of LCs issued and delay in servicing its debt obligations in the past. However, the liquidity position has improved due to better capacity utilization of late.

Fluctuating top line

The total operating income (TOI) of the company has been fluctuating over the last few years. The company's top line largely remained in the range of Rs.300 crore from FY16-FY18 (amid fluctuations within this period). The TOI increased significantly by 23.73% from Rs.288.53 crore in FY18 to Rs.357.01 crore in FY19.

Raw material price risk

The primary raw material for the company is nylon chip, which is generally imported from Taiwan. The prices of these raw materials are impacted by various factors like global crude oil prices, demand-supply, government policies etc. The cost of raw materials and finished goods has been volatile in nature and hence, profitability margins of the company are susceptible to fluctuation in raw material prices and/or finished products. However, the company has been able to pass on the effect of volatility to end customers to a certain extent.

Foreign exchange risk

Revenue of the company from foreign markets (Rs.2.67 crore in FY19) is insignificant in proportion to the total revenue. However, the company imports over 90% of its raw materials requirements, thus exposing the company to foreign currency fluctuation risk. As indicated by the management, the company generally does not hedge its forex position. However, the company takes a forward cover in case of high volatility in the exchange rates. The company has indicated that as on August 29, 2019, the open position was around Rs.54.54 crore.

Working capital intensive operations

Operations of the company are working capital intensive in nature (around of 60-85 days over the last three years). The average receivable collection days was moderate at 72 days in FY19 (PY: 75 days). The average creditor days improved from 92 days in FY18 to 78 days in FY19. The inventory days was also high (87 days) due to high finished good holding days in FY19.

Changes in government policies

The textile industry had pitched strongly for removal of reverse charge mechanism, but it remained unchanged in the Union Budget 2019. Due to this mechanism, the cash circulation cycle has elongated and players are facing liquidity shortage. After demonetization and GST implementation, the overall production of fabric has also gone down. The textile industry also pitched for removal of GST for units whose turnover is less than Rs.5 crore. However, the limit of Rs.50 lakh for GST exemption remained unchanged in the budget.

Highly competitive nature of the industry

The industry of nylon yarn manufacturing is highly competitive due to low entry barriers along with limited product differentiation, thereby impacting the profitability margins of industry players.

Analytical Approach & Applicable Criteria

Standalone

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Criteria on Default Recognition and Post-Default Curing Period

Liquidity

The liquidity profile of the company is stretched due to elongated working capital cycle, delays in receipt of GST dues along with less than anticipated cash accruals leading to devolvement of LCs issued and delay in servicing its debt obligations by the company in the past. The working capital limits were also fully utilized during the 12 months ended July 31, 2019. The company had minimal cash and bank balances as on March 31, 2019 to meet its liquidity requirements further indicating its tight liquidity position in the short to medium run. However, the projected DSCR is moderate since the company is presently earning a modest level of cash accruals sufficient enough to repay its long term debt obligations.

About the Company

Prafful Overseas Private Limited (POPL) was promoted by the Aggarwal family in 1990. POPL is the flagship company of the Surat based Prafful group. The group has been in the textile industry for over four decades. Presently, Mr. Sri Narain Aggarwal and his son, Mr. Raveesh Aggarwal are directors in the company and responsible for managing the day-to-day operations.

Earlier, POPL was solely involved in the processing of fabrics. In the year 2000, the company started embroidery of fabrics at GIDC Surat. Subsequently, the company diversified its product portfolio in 2008 by setting up a manufacturing facility in Bharuch (Gujarat) for fully drawn filament and mono filament nylon yarn. The company undertook a major capex of ~Rs.68 crore in FY18 for additional capacity in the nylon yarn manufacturing segment.

Financials (Standalone) **(Rs. crores)**

For the year ended* / As On	**31-03-2018 (Audited)**	**31-03-2019 (Audited)**
Total Operating Income	288.53	357.01
EBITDA	41.20	42.89
PAT	10.50	6.09
Total Debt	161.44	149.60
Tangible Networth	100.38	106.58
EBITDA Margin (%)	14.28	12.01
PAT Margin (%)	3.65	1.71
Overall Gearing Ratio (x)	1.61	1.40

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	**Name of Instrument/ Facilities**	**Current Rating (Year 2019-20)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**
1.	Fund Based Limits – CC	Long Term	45.30	IVR BB+/Stable Outlook	--	--	--
2.	Long Term Debt – Term Loan	Long Term	34.58	IVR BB+/Stable Outlook	--	--	--
3.	Non- Fund Based Facilities – LC/BG	Short Term	76.50	IVR A4+	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	--	45.30	IVR BB+/Stable Outlook
Term Loan	--	--	Dec 2024	34.58	IVR BB+/Stable Outlook
Letter of Credit	--	--	--	70.00	IVR A4+
Bank Guarantee	--	--	--	6.50	IVR A4+