# Press Release

## Prafful Overseas Private Limited (POPL)

### December 03, 2020

| Sr. No | Facilities | Amount (INR Crore) | Current Ratings | Rating Action |
|---|---|---|---|---|
| 1 | Long Term Fund Based Facilities – Term Loan | 31.76 (Reduced from INR34.58 Crore) | IVR BB+/Stable (IVR Double B Plus with Stable Outlook) | Reaffirmed |
| 2 | Long Term Fund Based Facilities – Cash Credit | 45.30 | IVR BB+/Stable (IVR Double B Plus with Stable Outlook) | Reaffirmed |
| 3 | Short Term Non Fund Based Facilities – Bank Guarantee | 6.50 | IVR A4+ (IVR Single A Four Plus) | Reaffirmed |
| 4 | Short Term Non Fund Based Facilities – Letter of Credit | 70.00 | IVR A4+ (IVR Single A Four Plus) | Reaffirmed |
| 5 | Proposed long term fund based Facilities | 2.82 | IVR BB+/Stable (IVR Double B Plus with Stable Outlook) | Assigned |
| | **Total** | **156.38** | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating continues to derive its strengths from long record of operations, experienced management, established relationships with clients and suppliers, stable financial performance and moderate debt protection parameters. However, the rating strengths are partially offset by working capital intensive nature of operations inherent to the industry, foreign currency fluctuation risk, moderation in profit margins and high competition in the industry.

**Key Rating Sensitivities:**

- **Upward Factor**
  - Substantial scaling up of its operations while maintaining stable profit margins and financial risk profile
- **Downward Factor**
  - Deterioration in business risk profile which impacts the debt protection metrics and profit margins.

**Key Rating Drivers with detailed description**

**Key Rating Strengths**

**Long track record of operations and experienced management**

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**

Company vintage has enabled it to forge healthy relationships with its customers and suppliers. The experience of promoters continues to help the company to improve its product profile. The top five clients contribute to around 46% in FY2020 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 a long-term business relation and established supply arrangements for procuring the same.

**Stable financial performance albeit moderation in profit margins**

The total income of the company remained stable over the past three fiscals ending in FY20 on the back of steady and increasing order flow. The company reported a revenue of INR 368.74 Crore during FY20 (FY19: INR 350.09 and FY18: 288.53). POPL has achieved continuous growth over the past three years. It's total operating income (TOI) registered a CAGR of ~13% during FY18-FY20 with a y-o-y growth of ~5% in FY20. The company, however, has a range bound EBIDTA margin between 11-12%. The EBIDTA margins stood on 10.61% in FY2020 (FY19: 11.57%, FY18: 14.28%) on the back of intense competition and fluctuation in raw material prices. Further, the employee cost has also increased during the aforesaid period resulting in impacting the profit margins. However, the company performance was impacted during the IQFY21 due to nationwide lockdown arising out of Corona-19 pandemic. However, the company's performance gradually started at optimum capacity from July 20 onwards. Overall Performance expected to be subdued in FY21 but will remain moderate.

**Improvement in the capital structure and moderate debt protection parameters**

POPL has witnessed gradual improvement in its capital structure over the last three account closing dates backed by scheduled repayment of term debt obligations and accretion of profit to net worth. The debt equity ratio remained satisfactory and improved from 1.18x as on March 31, 2018 to 0.77x as on March 31,2020 and the overall gearing ratio though remained moderate improved from 1.61x as on March 31,2018 to 1.20x as on March 31,2020. Total indebtedness as reflected by the TOL/TNW also remained moderate at 1.82x as on March 31, 2020 (2.34x as on March 31, 2018). The interest coverage ratio stood comfortable at 2.42x as on March 31, 2020.

**Key Rating Weaknesses**

**Working capital intensive nature of operations**

POPL's business has moderately large working capital requirements, as reflected in the inventory days holding period of 81 days as on March 31, 2020, thereby affecting the operating cycle of the company, which stands at 95 days as on March 31, 2020. Further, moderately high collection period cycle of 73 days as on March 31, 2020 as against the average creditor days of 59 for FY2020 has also resulted in deterioration of the operating cycle.

**Highly competitive and working capital-intensive nature of industry**

The Indian textile industry is highly fragmented and competitive marked by presence of large number of organized and unorganized players. This restricts the pricing flexibility and bargaining power with its customers. Further, the operating margins are fluctuating due to the volatility in pricing of raw materials. However, the promoters' long-established presence in the field shall enable them to pass the volatility in raw material process to its customers, further reducing the risk to a certain extent.

**Foreign exchange risk**

Total Operating Income of the company from foreign markets (INR 1.96 Crore in FY2020) is insignificant in proportion to the total operations. However, the company imports over 90% of its raw materials requirements, thus exposing the company to the 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 September 30th, 2020, the open position was around INR 48.87 Crore.

**Analytical Approach &Applicable Criteria:**

Standalone Approach

Rating Methodology for Manufacturing sector Companies

Financial Ratios & Interpretation (Non-Financial Sector)

**Liquidity: Stretched**

The liquidity position of the company is expected to remain stretched in the near term due to working capital intensive nature of operations leading to higher reliance on the working capital limits. The average bank limit utilization stood at almost 100.00% during the last twelve months ended September 30 2020 and a current ratio of 1.41x as on FY20. The projected cash accruals are tightly matching the future repayment obligation in the short term.

**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. 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:**

(INR Crore)

| For the year ended/ As On* | 31-03-2019 (Audited) | 31-03-2020 (Audited) |
|---|---|---|
| Total Operating Income | 350.09 | 368.74 |
| EBIDTA | 40.50 | 39.13 |
| PAT | 3.07 | 5.12 |
| Total Debt | 148.31 | 130.36 |
| Tangible Net-worth | 103.43 | 108.55 |
| **Ratios** | | |
| EBIDTA Margin (%) | 11.57 | 10.61 |
| PAT Margin (%) | 0.87 | 1.39 |
| Overall Gearing Ratio (x) | 1.43 | 1.20 |

** 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 2020-21) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (INR Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 (September 16th, 2019) | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Fund Based Facilities – Term Loan | Long Term | 31.76 | IVR BB+/Stable | IVR BB+/Stable | | |
| 2. | Fund Based Facilities – Cash Credit | Long Term | 45.30 | IVR BB+/Stable | IVR BB+/Stable | -- | -- |
| 3. | Non Fund Based Facilities – Bank Guarantee | Short Term | 6.50 | IVR A4+ | IVR A4+ | -- | -- |
| 4. | Non Fund Based Facilities – Letter of Credit | Short Term | 70.00 | IVR A4+ | IVR A4+ | -- | -- |
| 5. | Proposed long | Long | 2.82 | IVR | -- | -- | -- |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | term fund based Facilities | Term | | BB+/Stable | | | |

**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.

**Name and Contact Details of the Rating Team:**



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|---|---|
| Name: Shreshtha Singhvi | Name: Amit Bhuwania |
| Tel: (022) 62396023 | Tel: (022) 62396023 |
| Email: ssinghvi@infomerics.com | Email: abhuwania@infomerics.com |



**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 1: Details of Facilities**

| Name of Facility | Size of Facility (INR Crore) | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Long Term Fund Based Facilities – Term Loan | 31.76 | NA | NA | December 2024 | IVR BB+/Stable |
| Long Term Fund Based Facilities – Cash Credit | 45.30 | NA | NA | Revolving | IVR BB+/Stable |

| | | | | | |
|---|---|---|---|---|---|
| Short Term Non Fund Based Facilities – Bank Guarantee | 6.50 | NA | NA | - | IVR A4+ |
| Short Term Non Fund Based Facilities – Letter of Credit | 70.00 | NA | NA | Upto 120 days | IVR A4+ |
| Proposed long term fund based Facilities | 2.82 | NA | NA | - | IVR BB+/Stable |