March 25, 2024

Pristine Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	18.00	15.00	[ICRA]BBB-(Stable); Reaffirmed
Long-term – Fund-based – Term Loan	4.70	1.70	[ICRA]BBB-(Stable); Reaffirmed
Long-term / Short-term – Interchangeable	(0.50)	(0.50)	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
Long-term / Short-term – Unallocated	2.30	8.30	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the Sanghvi Group entities, namely Priyadarshini Polysacks Limited (PPL) and Pristine Industries Limited (PIL), hereafter known as the 'Group'. The consolidated view considers the presence of both PPL and PIL in similar business domains and their common management control.

The reaffirmation of ratings continues to consider the healthy financial profile of the Group, as reflected by limited debt levels leading to satisfactory debt metrics, which is expected to continue on the back of no near-term large debt-funded capex and adequate liquidity profile. The rating also continues to factor in the extensive experience of the Group's promoters in the plastic packaging industry and its strategically located manufacturing units in proximity to key customers from the cement and sugar sectors.

The ratings, however, remained constrained by the high working capital intensity of operations because of its elongated receivable cycle, and moderate scale of operations in a fragmented industry structure resulting in stiff competition from both organised and unorganised players. ICRA notes that in FY2023 as well as in the current fiscal the Group's revenues and margin had remained under pressure owing to declining realisations, leading to 13.2% decline in sales in FY2023, which is expected to further decline in FY2024. Though part of the decline is on account of lower realisations following raw material decrease, the company also witnessed decline in volume sales for sugar bags from subdued demand conditions as well as stiff competition.

The rating also continues to factor in the exposure of the Group's revenue and earnings to the volatility in crude oil prices and erratic monsoons. Despite moderation in the Group's earning level in the current fiscal, its coverage indicators are expected to remain at comfortable levels due to limited borrowing levels. ICRA also notes that the Group (mainly PPL) has extended intercorporate loans to unrelated parties, where the advances have gone up sizeably in FY2023. Although there has not been any instance of bad debts in the past, their timely recovery will be critical from a liquidity as well as overall credit perspective and will remain a key rating monitorable. The ratings also remain constrained by the Group's exposure to high supplier concentration risks and its limited bargaining power with its key suppliers, which restricts margin expansion to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoters in the polypropylene sacks business and location-specific advantages, as well as the steady clientele base across the cement and sugar industries, and maintenance of its healthy debt metrics in the absence of any large debt-funded capex.

Key rating drivers and their description

Credit strengths

Extensive experience of Group's promoters in the plastic packaging industry – The Sanghvi Group has extensive experience in managing the business of polypropylene (PP) sacks. While the Group has been operating in this space since 1985, it ventured into the renewable energy business in 2006. Given its long presence in the PP sacks business, the Group has developed enduring relationships with its customers, particularly with those across the cement and sugar industries, which have crystallised in the form of year-on-year orders to PPL and PIL.

Strategically located manufacturing units entailing adequate geographical coverage – PPL's manufacturing unit is located in Kolhapur (Maharashtra), while PIL's manufacturing unit is at Abu Road (Rajasthan) along the Rajasthan–Gujarat border. The strategic location of the manufacturing units entails adequate coverage of key customers from the cement and sugar manufacturing industries in North, West, and South India. The Group's renewable energy assets are also mainly located in Maharashtra.

Fairly diversified client base, reputed cement manufacturers and sugar mills in the customer mix – The Group's customer mix, particularly across the cement and sugar sectors, includes reputed names across India. PPL, in addition, caters to the leno bags segment, which finds application in packing horticultural products. PPL's customer mix remains moderately diversified with its top five customers driving ~48% of its revenues in FY2023 over ~41% in FY2022, while PIL's customer mix had top five customers contributing ~40% to its revenues in FY2023 over ~44% in FY2022.

Comfortable capital structure and adequate coverage indicators at the consolidated level – The Group's capital structure has remained comfortable mainly because of an adequate net worth of Rs. 145.16 crore. The gearing on a consolidated basis remained at 0.24 time in FY2023 over 0.31 time in FY2022 and TOL/TNW remained at 0.37 time in FY2023 over 0.46 time in FY2022. Due to pressure of top line and margins, the company reported lower absolute OPBITDA in FY2023, leading to interest coverage falling to 4.53x in FY2023 compared to ~7.07 times in FY2022. The coverage indicator in FY2024 is also likely to be under pressure due to falling realisations but is expected to be adequate in the range of 3.5x-4.0x mainly because of limited debt levels.

Credit challenges

Revenue remains exposed to end-user demand scenarios, with margins vulnerable to raw material price fluctuations – The revenue profile depends highly on the cement and sugar industry's performance, which is subjected to various economic as well as weather conditions. In addition, the basic raw material for the company is PP granules, which are derivatives of crude oil, hence the price is determined by global crude oil prices. In FY2023 as well as in the current fiscal, the Group's revenues and margins had remained under pressure owing to declining realisations, leading to 13.2% decline in sales in FY2023, which is expected to further decline in FY2024. Though part of the decline is on account of lower realisations following raw material decrease, the company also witnessed decline in volume sales for sugar bags due to subdued demand conditions as well as stiff competition. The margin profile also witnessed a decline to 7.6% in FY2023 from 11.3% in FY2022, and further to ~6% in 9M FY2024, due to falling realisations as well as inventory losses.

High working capital intensity from elongated receivable cycle – The Group's working capital intensity remains high owing to its elongated receivable cycle emanating from delayed payments from some cement manufacturers and sugar mills. On a consolidated basis, the working capital intensity stood at 38% in FY2023 (37% in FY2022).

Highly fragmented industry structure leading to intense competition from both organised and unorganised players – The Group faces intense competition in its plastic bag packaging business from both organised and unorganised players owing to the highly fragmented nature of the industry. Further, the Group's consolidated revenues stood at Rs. 249.9 crore in FY2023, indicating a moderate scale in the highly fragmented PP sack manufacturing sector with more than 200 major players. The high proportion of small-scale units in the industry has resisted scale and profitability expansion in the past.

Supplier concentration risk; low bargaining power – The Group largely procures its raw material (polypropylene granules) from a few large key petrochemical players (public and private) in India, thus posing a supplier concentration risk and low bargaining power; although its established relationships with its suppliers provide some comfort.

Increasing advances to unrelated parties, timely recovery of the same remains critical from credit perspective – PPL has extended sizable inter-corporate loans to unrelated parties, which stood at ~Rs. 15.01 crore as on March 31, 2023. Although there has not been any instances of bad debts in the past, any further advances that materially impacts the liquidity profile of the company, coupled with the timely recovery will be critical from a credit perspective and, hence, will remain a key rating monitorable, going forward.

Liquidity position: Adequate

The Group's liquidity remains adequate as evidenced by the unutilised working capital limits of Rs. 14.8 crore as of February 2024. The Group's working capital utilisation stood at an average of 42.1% against sanctioned limits for the last 12-month period ending in February 2024. On a consolidated basis, the repayments are expected to be easily covered by cash accruals. The promoters have also supported the entities consistently with unsecured loans, which have no fixed repayment schedules, lending support to the liquidity position. Also, on a standalone level, PIL has an average utilisation of ~37% against sanctioned limits for the last 12-month period ending in February 2024; and a debt repayment of Rs. 2.15 crore in FY2024, which are expected to be easily covered by its cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade PIL's rating if the Group demonstrates a healthy and sustained growth in its overall scale of operations and profitability, leading to consistent improvement in coverage indicators and liquidity position.

Negative factors – Negative pressure on the rating could arise if lower than expected accruals, due to a notable decline in revenues and/or profitability of the Group, materially impacts the financial profile or elongation in the working capital cycle, weakens the liquidity position. Specific credit metrics of interest cover below 2.8 times on a sustained basis would pose a downward pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of Pristine Industries Limited and Priyadarshini Polysacks Limited (as mentioned in Annexure-II), given operations in the same business sector and a common management.

About the company

PPL and PIL are part of the Kolhapur-based Sanghvi Group. While PPL is the flagship company, Pertinent Infra & Energy Ltd. (PIEL) and Kalpaturu Textile Mills Limited remain the other entities in the packaging material and renewable energy focused Group. The Group is promoted by the Sanghvi family who exercise close control over its operations.

PIL was formerly known as Century Financial Resources Ltd. and was engaged in extending unsecured loans to PPL, and its only income was the interest received on such loans. PPL repaid these loans in FY2011 and, subsequently, the company, renamed as 'Pristine Industries Limited', set up a plant in Rajasthan in FY2012 to manufacture and supply PP woven sacks in the cement manufacturing hubs of Gujarat and Rajasthan. The plant has an annual production capacity of 7,500 MT (9.4 crore bags).

PPL manufactures PP woven sacks from its manufacturing facility at Kolhapur, with an annual production capacity of 16,000 MT (20 crore bags). The company remains focussed on cement, sugar, and vegetable product (leno bags) sectors.

In FY2023, on a consolidated level, the Group reported a profit after tax (PAT) of ~Rs. 8 crore on an operating income (OI) of ~Rs. 250 crore, against a PAT of ~Rs. 18 crore on an OI of ~Rs. 288 crore in FY2022.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	9M FY2024*
Operating income	288.0	249.9	157.1
PAT	17.5	7.9	4.6
OPBDIT/OI	11.3%	7.6%	6.0%
PAT/OI	6.1%	3.2%	2.9%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	-
Total debt/OPBDIT (times)	1.3	1.8	-
Interest coverage (times)	7.1	4.5	3.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 25, 2024	Dec 26, 2022	Oct 07, 2021	Sept 01, 2020
1	**Cash Credit**	Long-term	15.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	**Term Loans**	Long-term	1.70	3.10	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	**Interchangeable**	Long-term/ Short-term	(0.50)	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-
4	**Unallocated**	Long-term	-	-	-	-	[ICRA]BBB- (Stable)	-
5	**Unallocated**	Long-term/ Short-term	8.30	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Cash Credit	Simple
Long term - Term Loans	Simple
Long term/Short term – Interchangeable	Very Simple
Long term/Short term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term – Cash Credit**	NA	NA	NA	15.00	[ICRA]BBB-(Stable)
NA	**Long term – Term Loan**	July 2022	NA	July 2027	1.70	[ICRA]BBB-(Stable)
NA	**Long term/ Short term – Interchangeable**	NA	NA	NA	(0.50)	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	**Long term/ Short term – Unallocated**	NA	NA	NA	8.30	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Priyadarshini Polysacks Limited	NA	Full Consolidation
Pristine Industries Limited	NA	Full consolidation

**Consolidated on the basis of operations in the same business sector and a common management*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 98 8408 6366
ksrikumar@icraindia.com

Suprio Banerjee
+91 98 2024 4979
supriob@icraindia.com

Adish Mali
+91 91 6732 2924
adish.mali@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches