December 26, 2022

Pristine Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash Credit	18.00	18.00	[ICRA]BBB- (Stable); Reaffirmed
Long-term – Term Loans	2.30	4.70	[ICRA]BBB- (Stable); Reaffirmed
Long-term/ Short-term – Interchangeable	(0.50)	(0.50)	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
Long-term – Unallocated	4.70	0.00	-
Long-term/ Short-term – Unallocated	0.00	2.30	[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 rating reaffirmation continues to reflect 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 rating continues to draw comfort from the healthy financial profile of the Group, characterised by steady revenue growth, satisfactory profitability, adequate coverage indicators, and a favourable capital structure

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. In the current fiscal, the Group's margin has remained under pressure owing to falling realisations of its end products and exposure to intense competition. Going ahead, the Group's revenue and earnings will continue to remain exposed to the volatility in crude oil prices. 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.

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 reputed clientele across the cement and sugar industries.

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. Through its entities, PPL, PIL, and Pertinent Infra and Energy Limited, the Group is present in the renewable energy sector by chiefly managing its windmills with some exposure to solar power generation.

Strategically located manufacturing units entailing adequate geographical coverage – PPL's manufacturing unit is located in Kolhapur (Maharashtra), while PIL's manufacturing unit is located 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 mostly 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 ~41% of its revenues in FY2022 over ~47% in FY2021, while PIL's customer mix had top five customers contributing to ~44% of its revenues in FY2022 over ~40% in FY2021.

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. 131.17 crore. The gearing on a consolidated basis remained at 0.31 time in FY2022 over 0.30 time in FY2021 and TOL/TNW remained at 0.46 time in FY2022 over 0.47 time in FY2021. Due to lower absolute OPBITDA in FY2022, the interest coverage indicator has decreased slightly, but continues to be comfortable at ~7.07 times in FY2022 against ~8.43 times in FY2021, mainly because of low-interest cost and adequate profits. On the back of term loan addition in FY2022, The TD/OPBIDTA increased to ~1.30 times in FY2022 over 1.01 times in FY2021; however, it continues to be in the comfortable range.

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. The profitability remains exposed to fluctuations in crude oil prices as reflected in the drop in operating margin to 11.42% in FY2022 from 14.19% in FY2021, on the back of high crude oil prices. Moreover, in H1 FY2023, the operating margin dropped further to 5.63% due to the volatility in raw material price, resulting in 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 Maharashtra State Electricity Distribution Company Limited (MSEDCL) for its wind power sales as well as for some cement manufacturers and sugar mills. During FY2022, PPL is estimated to have written off debtors to the extent of ~Rs. 2.68 crore, given weak counterparties, which have been declared insolvent. On a consolidated basis, the working capital intensity stood at 37% in FY2022 (32% in FY2021).

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. 288.25 crore in FY2022, 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 from Reliance Industries Limited, thus posing a supplier concentration risk and low bargaining power; although its established relationship with its suppliers provides some comfort.

Liquidity position: Adequate

The Group's liquidity remains adequate as evidenced by the unutilised working capital limits of Rs. 16.09 crore as on March 31, 2022. The Group's working capital utilisation stood at an average of 56%, and the PIL's working capital utilisation stood at an average of 65% for the 12-month ended in August 2022. 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.

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 deteriorates the working capital cycle, weakening the liquidity position.

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 its Group entity (as mentioned in Annexure-2), 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 exercises 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 currently has an annual production capacity of ~10,000–15,000 MT (six crore bags).

In FY2022, on a consolidated level, the Group reported a profit after tax of Rs. 17.57 crore on an operating income of Rs. 288.25 crore on a provisional basis, against a PAT of Rs. 19.30 crore on an OI of Rs. 249.21 crore in FY2021.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	H1 FY2023*
Operating income	249.21	288.25	104.67
PAT	19.30	17.57	1.00
OPBDIT/OI	14.19%	11.42%	5.63%
PAT/OI	7.74%	6.10%	0.96%
Total outside liabilities/Tangible net worth (times)	0.47	0.46	-
Total debt/OPBDIT (times)	1.01	1.30	-
Interest coverage (times)	8.43	7.07	3.14

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; (*) - Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 26, 2022	Oct 07, 2021	Sept 01, 2020	Nov 07, 2019
1 Cash Credit	Long-term	18.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
2 Term Loans	Long-term	4.70	1.85	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
3 Interchangeable	Long-term/ Short-term	(0.50)	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-
4 Unallocated	Long-term	-	-	-	[ICRA]BBB- (Stable)	-	-
5 Unallocated	Long-term/ Short-term	2.30	-	[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	18.00	[ICRA]BBB-(Stable)
NA	**Long term – Term Loans 1**	March 2018	NA	March 2023	2.3	[ICRA]BBB-(Stable)
NA	**Long term – Term Loans 2**	July 2022	NA	July 2027	2.4	[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	2.30	[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 line of business sector and a common management*

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About ICRA Limited:

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