September 01, 2020

Pristine Industries Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Cash Credit	18.00	15.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB (Stable)
Long term- Term Loans	12.50	6.32	[ICRA]BBB- (Stable); upgraded from [ICRA]BB (Stable)
Long term - Unallocated	9.50	8.68	[ICRA]BBB- (Stable); upgraded from [ICRA]BB (Stable)
Total	**40.00**	**30.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the rating is following the change in the rating approach in which a consolidated view has been taken for the Sanghvi Group entities, namely, Priyadarshini Polysacks Limited (PPL) and Pristine industries Limited (PIL). The consolidated view is taken given its presence in similar business domains and the common management control for both the entities.

The ratings also continue to reflect the extensive experience of the Group's promoters in the plastic packaging industry and its strategically located manufacturing units with their proximity to key customers from cement and sugar sectors. ICRA also notes the growing usage of polypropylene woven sacks in various industries on the back of their inherent advantages over traditional packaging like jute bags. The rating also considers the Group's investment in wind energy, which leads to supplementary cash flows in the business. ICRA further notes the Group's satisfactory profitability and consequent adequate coverage indicators, along with its comfortable capital structure, backed by a strong net worth base and controlled borrowing levels.

The ratings, however, remain constrained by the Group's high working capital intensity of operations because of its stretched receivable cycle, and moderate scale of operations in a fragmented industry structure resulting in stiff competition from both organised and unorganised players. The ratings also remain constrained by the Group's exposure to high supplier concentration risks and its limited bargaining power with its key supplier, which restricts margin expansion to some extent. Further, the profitability of the Group entities also remains vulnerable to raw material price fluctuations (mainly polypropylene), which is linked to volatile crude oil price movements. ICRA notes that the near-term business environment remains challenging due to the prevailing pandemic induced disruptions and their impact on the plastic packaging industry. ICRA also expects the Group's operating income for FY2021 to remain under pressure with recovery primarily depending upon the relaxation as well as normalisation of economic activities.

The Stable outlook on the long-term rating reflects ICRA's opinion on the benefit that the Group entities derive from the extensive experience of their promoters in polypropylene sacks and renewable energy businesses, as well as their location-specific advantage and reputed clientele across cement and sugar industries.

Key rating drivers and their description

Extensive experience of Group's promoters in the plastic packaging industry – The Sanghvi Group has extensive experience in managing the business of polypropylene sacks. While the Group has been operating in this space since 1985, it ventured into the renewable energy business from 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 of 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, include UltraTech Cements, India Cements, Tikaula Sugar Mills Ltd.among others. PPL, in addition, caters to the leno bags segment, which finds application in packing horticultural products. PPL's customer concentration risk remains fairly diversified with its top five customers driving 36% of its revenues in FY2020 over 43% in FY2019, while PIL's customer concentration risk remains fairly diversified with top five customers contributing to 47% of its revenues in FY2020 over 40% in FY2019.

Satisfactory profitability metrics, comfortable capital structure and adequate coverage indicators at consolidated level – In the past fiscals, both PPL and PIL registered a healthy operating profitability on a consolidated basis, mainly by managing their raw material cost fluctuations by partially passing them to their customers. However, the OPM decreased in FY2020P to 10.02% over 12.88% in FY2019, given the increase in power costs and general administration expenses. The Group's capital structure has remained comfortable mainly because of adequate net worth. The gearing on a consolidated basis remained at 0.52 time in FY2020P over 0.67 time in FY2019. The Group's coverage indicators also remained comfortable in FY2020P and FY2019, mainly because of low debt levels and adequate profits. While TD/OPBIDTA remained at 1.99 times in FY2020P over 1.91 times in FY2019, interest coverage remained at 4.09 times in FY2020P over 4.20 times in FY2019.

Credit challenges

High working capital intensity emanating from stretched receivable cycle - The Group's working capital intensity remains high owing to its stretched receivable cycle owing to delayed payments from Maharashtra State Electricity Distribution Company Limited (MSEDCL) as well as some cement manufacturers and sugar mills. Higher debtor days as well as relatively lower creditor days resulted in higher working capital intensity in the past fiscals. On a consolidated basis, the working capital intensity stands at 37% in FY2020 over 31% in FY2019, improving collections. The same has helped increase the Group's liquidity position and lower its reliance on external borrowings, which will be key monitorable, going forward.

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. 223.45 crore in FY2020, 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. Given the impact of the pandemic, the Group's revenues in Q1 FY2021 have remained above Rs.35.00 crore. Given the expected bumper cane crushing season in the second half of FY2020, coupled with demand from the cement sector, this is likely to result in revenue ramp up to above Rs. 215.00 crore for the full year, on a consolidated basis.

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. The company has a monthly escalation clause for raw material price rises in all major contracts (except Government tenders), protecting it against major commodity price fluctuations, even though the profitability of the company remains exposed to freight, power and labour cost movements.

Profitability vulnerable to raw material price fluctuations, which remain a function of crude oil price movements - The basic raw material for the company is PP granules, which are derivatives of crude oil, hence their price is determined by global crude oil prices. The profitability remains exposed to fluctuations in raw material prices in the interim period, while large fluctuations are covered by pass on arrangements.

Liquidity position: Adequate

The Group's liquidity remains adequate as evidenced by positive cash flow from operations in FY2020. Cash flows from operations are likely to be under moderate pressure in FY2021 mainly on increase in operating costs. On a consolidated basis, PPL and PIL have adequate liquidity in the form of satisfactory unutilised working capital limits of Rs. 14.40 crore. Given the moderate repayments in the near term, no major debt availment is likely to ease the liquidity pressure in the near term. Further, 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 triggers - ICRA could upgrade the group's rating if it demonstrates a healthy and sustained growth in its operating income and profitability metrics alongwith improvement in its receivable cycle.

Negative triggers - Negative pressure on the rating could arise if, lower than expected accruals due to notable decline in revenues and/or profitability, or deterioration in working capital cycle mainly due to stretch in receivable cycle which will materially impacts its liquidity and overall financial profile.

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 the various Group entities (as mentioned in Annexure-2) operating in the same business sector and sharing common managerial linkages.

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 under the name 'Pristine Industries Limited' set up a plant in Rajasthan in FY2012 to manufacture and supply PP woven sacks in Gujarat and Rajasthan which are cement manufacturing hubs. The plant currently has an annual production capacity of 7200MT (9 Crore Bags).

In FY2020, on a provisional basis, the Group reported a net profit of Rs. 10.05 crore on an OI of Rs. 223.45 crore against a net profit of Rs. 12.58 crore on an OI of Rs. 241.20 crore in the previous year.

Key financial indicators

Rs. crore	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	212.00	241.20	223.45
PAT (Rs. crore)	8.94	12.58	10.05
OPBDIT/OI (%)	13.46%	13.12%	11.83%
RoCE (%)	12%	15%	11%
Total Outside Liabilities/Tangible Net Worth (times)	1.13	0.87	0.67
Total Debt/OPBDIT (times)	2.23	1.91	1.99
Interest Coverage (times)	4.21	4.20	4.09
DSCR	1.58	2.07	1.53

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2021)			Rating History for the Past 3 Years		
			Amount Rated	Amount Outstanding	Rating 01-Sep-2020	FY2020 07-Nov-2019	FY2019 05-Oct-2018	FY2018 13-Oct-2017
1	Cash Credit	Long Term	15.00	-	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term Loans	Long Term	6.32	4.58^	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
5	Unallocated	Long term	8.68	-	[ICRA]BBB- (Stable)	-	-	-
	Total		**30.00**					

Amount in Rs. crore, ^ Term loans outstanding as on March 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Cash Credit	NA	-	-	15.00	[ICRA]BBB- (Stable)
NA	Long term - Term Loans	March 2018	9.5%	March 2023	6.32	[ICRA]BBB- (Stable)
NA	Long term/Short term – Unallocated	NA			8.68	[ICRA]BBB- (Stable)

Source: Pristine industries Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Priyadarshini Polysacks Limited	Sanghvi Group	Full Consolidation
Pristine Industries Limited	Sanghvi Group	Full Consolidation

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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.

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