April 17, 2020

Prime Urban Development India Ltd: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term and short-term fund based limits	21.00	[ICRA]B-(Stable)/[ICRA]A4; Assigned
Total	**21.00**	

**Instrument details are provided in Annexure 1*

Rationale

The assigned ratings of Prime Urban Development India Ltd (PUDIL) is constrained by the weak financial profile of the company, which is characterised by continuing losses and sharp decline in turnover in 9M FY2020[1]. The rating also considers its leveraged capital structure with a gearing of 2.20 times as on March 31, 2019. The profitability is exposed to volatility in cotton yarn prices and intense competition in the textile sector. ICRA also notes that the company's real estate business is exposed to execution and sales risks along with geographical concentration risks.

The ratings, however, derive strength from the extensive experience of promoters in the textile business. The Stable outlook on the long-term rating of [ICRA]B- reflects ICRA's opinion that PUDIL will continue to benefit from the experience of its promoters in the textile and real estate sectors.

Key rating drivers and their description

Credit strengths

Extensive track record of company in the cotton trading business- PUDIL was incorporated in 1936, and it has an extensive track record of around eight decades in the textile business, in manufacturing and trading cotton yarn. In 2008, its management closed the yarn manufacturing unit and ventured into real estate business. However, the trading of cotton yarn continued. The company is managed by the members of the Patodia family.

Credit challenges

Financial profile characterised by continuing losses and sharp decline in turnover in 9M FY2020 - The company has registered losses at the net level at Rs. 10.48 crore and Rs. 2.60 crore in FY2018 and FY2019 respectively, due to high procurement cost of raw materials and high interest cost. The losses continued in the current fiscal, with the company recording net loss of Rs. 4.89 crore in the nine-month period ended December 31, 2019. Also, there was a sharp year-on-year decline of 53% in operating income this fiscal, with PUDIL recording an OI of Rs. 53.28 crore during the nine-month period ended December 31, 2019, over an operating income of Rs. 114.31 crore for the corresponding period in the previous fiscal.

Leveraged capital structure with a gearing of 2.20 times as on March 31, 2019 - The net worth of PUDIL eroded in the last two years due to net losses. The net worth was reported at Rs. 14.46 crore as on March 31, 2019, as compared to

[1] *Nine months of financial year 2020: April to December 2019*

Rs. 31.92 crore as on March 31, 2017. Along with high debt (mainly consisting of interest bearing unsecured loans from corporates and related parties), this deteriorated the capital structure, with the gearing at 2.24 times as on March 31, 2019, which reduced marginally to 2.20 times as on December 31, 2019 (due to reduction in debt).

Profitability exposed to volatility in cotton yarn prices and foreign exchange movements; intense competition limits pricing flexibility - PUDIL remains exposed to forex fluctuations and volatility in yarn price movements since its entire trading revenues are derived from export sales. However, the risk is mitigated to an extent by the order backed procurement mechanism and the working capital borrowings through foreign currency-based packing credit facilities. The fragmented industry structure exposes the company to competition from other domestic and international yarn manufacturers/traders and restricts its pricing flexibility, which keeps margins under pressure.

Geographic concentration risk with respect to real estate projects under execution - PUDIL currently has two projects under development. Both the projects are in Tamil Nadu: a land development project at Kotagiri (Nilgiris district) and a residential project, Prime Crest, in Coimbatore. Thus, the company remains exposed to geographical concentration risk due to the location of its projects.

Real estate business exposed to execution and sales risks- Given that 54% of the total cost is yet to be incurred for Prime Crest, project execution risks remain high for the company. Furthermore, out of the total 24 plots, three have so far been booked for sales, while out of the 20 apartments in Prime Crest, the company has received bookings for 10 units. Thus, the company remains exposed to sales risk towards the balance unsold stock.

Liquidity position: Poor

The liquidity profile of the company has remained **poor** due consistent net losses incurred by the company over the past three years and significant amount of loans and investments in associates/subsidiaries, which further restricts financial flexibility. The average utilisation of the working capital limits stood at 56% during the 15-month period ended January 2020. The entity had long-term loans of Rs. 0.69 core on its books as on March 31, 2019, which is to be repaid by FY2022. PUDIL has no major capacity expansion plans in the near-to-medium-term.

Rating sensitivities

Positive triggers – An upward movement in rating could happen if there is turnaround of operations resulting in increased turnover and profitability on a sustained basis along with improvement in liquidity.

Negative triggers – Negative pressure on the rating could arise if there is further weakening of liquidity resulting in delay in debt servicing, or any inadequate infusion of promoter's fund to support the business. Any delay in sale of the real estate units or timely collection of receivables may also warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1936, Prime Urban Development India Limited was involved in cotton yarn manufacturing and trading. From FY2008, the company ventured into the real estate sector and stopped manufacturing cotton yarn. However, it is still involved in trading of cotton yarn and exports to various markets like Bangladesh, China, Pakistan and Egypt. In the real estate segment, PUDIL owns land parcels in Kotagiri, which are developed and sold. Also, it has taken up a residential project at Coimbatore for the construction and sale of 20 apartments. Both the projects were executed by Special Purpose Vehicles (SPVs). The company has completed a housing project of 386 apartments and an independent luxury villa project in Tamil Nadu. PUDIL's registered office is in Tirupur (Tamil Nadu), while it has a marketing office in Mumbai. The company is listed on the Bombay Stock Exchange (BSE).

PUDIL recorded a net loss of Rs. 2.60 crore on an operating income (OI) of Rs. 151.89 crore in FY2019 and a net loss of Rs. 4.89 crore on an OI of Rs. 53.28 crore for the nine-month period ended December 31, 2019 (provisional numbers).

Key financial indicators

	FY2018 Audited	FY2019 Audited	9M FY2020 Unaudited
Operating Income	95.02	151.89	53.28
PAT	(10.48)	(2.60)	(4.89)
OPBDITA/ OI (%)	5.94%	0.95%	-4.04%
RoCE (%)	-9.19%	2.77%	-9.77%
Total Debt/ TNW (times)	2.22	2.24	2.20
Total Debt/ OPBDITA (times)	6.75	22.41	(7.35)
Interest Coverage (times)	1.16	0.37	(1.05)
DSCR	(1.03)	0.10	(1.16)

Amounts in Rs. crore
OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital employed; TNW: Tangible Net Worth, DSCR: Debt Service Coverage Ratio
Source: Financial statements of PUDIL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021) Type	Amount Rated	Amount Outstanding	Rating April 17, 2020	Rating History for the past 3 years: Date & Rating in FY2020 -	Date & Rating in FY2019 -	Date & Rating in FY2018 -
1	Packing Credit/PCFC	Long-term and Short-	5.00	-	[ICRA]B-(Stable)/ [ICRA]A4	-	-	-
2	Standby PC limit	Long-term and Short-term	1.00	-	[ICRA]B-(Stable)/ [ICRA]A4	-	-	-
3	EBN/EBRD	Long-term and Short-term	15.00	-	[ICRA]B-(Stable)/ [ICRA]A4	-	-	-

Amount in Rs. crore

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

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
-	Packing Credit (PC)/PCFC	-	-	-	5.00	[ICRA]B-(Stable)/[ICRA]A4
-	Standby PC limit	-	-	-	1.00	[ICRA]B-(Stable)/[ICRA]A4
-	EBN/EBRD	-	-	-	15.00	[ICRA]B-(Stable)/[ICRA]A4

Amount in Rs. crore *Source: Prime Urban Development India Ltd*

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Rupa Pandey
+91 22 6114 3456
rupa.pandey@icraindia.com

Srideep Datta
+91 22 6114 3451
srideep.datta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999