Press Release

Parmeshwari Silk Mills Limited

April 02, 2020

Rating

Instrument/Facility	Amount (Rs. Crore)	Rating	Ratings Action
Long Term Bank Facilities - Fund Based	62.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Total	**62.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Parmeshwari Silk Mills Limited (PSML) derives comfort from its experienced & resourceful promoters, state of the art manufacturing facilities with satisfactory capacity utilization and gradual improvement in capital structure backed by steady accretion of profit to net worth and fund infusion by the promoters. The rating also positively factor in sustained growth in its scale of operations with improvement in profitability in FY19 and in 9MFY20 coupled with coupled satisfactory debt protection metrics. However, the rating strengths are partially offset by its geographical concentration, intense competition prevalent in the textile industry along with threat from availability of other substitutes, vulnerability of profitability to fluctuations in raw material prices and elongated operating cycle.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income with improvement in profitability and improvement in working capital management leading to improvement in liquidity
- Sustenance of the capital structure and improvement in debt protection metrics
- Geographical diversification in sales

Downward factor:

- Moderation in operating income and/or cash accrual or deterioration in operating margin, any stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure affecting the financial risk profile, particularly liquidity.

- Withdrawal of subordinated unsecured loans amounting to Rs.13.51 crore and/or deterioration in overall gearing to over 1.5x and interest coverage to below 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced & resourceful promoters and fund infusion by the promoters**

The promoter and managing director, Mr. Jatinder Pal Singh is associated with the business since inception and has vast experience of more than 25 years in the textile industry. Extensive experience of the promoter underpin the business risk profile of the company and supports it to develop established relationship with its customers. Further, the directors are well supported by an experienced team of professionals. The promoters have supported the business operations of PSML in times of need. The promoters have infused unsecured loan of INR 18.01 Crore as on March 31st, 2019 and has undertaken to subordinate INR 13.51 Cr of these unsecured loans to bank loans.

- **Sustained growth in scale of operations with improvement in profitability in FY19 and in 9MFY20**

Total operating income (TOI) of the company grew at a CAGR of ~14% over the last three years (FY17-FY19) with a y-o-y growth of about ~17% in FY19. The company started in-house processes in FY17 which stabilizes over the years and achieved a momentum in past two years and fuelled the growth in its scale of operation. The EBITDA margins has increased from 9.11% in FY18 to 11.88% in FY19. Growth in total operating income and increase in sales realisation from digital printing segment which commands higher margin in the textile market along with benefits arisen from backward integration into in-house digital printing of fabric and forward integration through in-house embroidery unit which company used to outsource earlier fuelled the improvement in EBITDA margin**.** Driven by improvement in absolute EBIDTA, the PAT level and PAT margin also improved during the aforesaid period. The gross cash accruals of the company also doubled from Rs.4.65 crore in FY18 to Rs.9.41 crore in FY19. Further, the company has also achieved y-o-y growth during 9MFY20, and earned a PAT of Rs.4.51 crore on a total revenue of Rs.107.93 crore. The EBITDA margin further improved to 11.96% in 9MFY20. Infomerics expects an improvement in total operating income along with increase in cash accruals in FY20.

- **Gradual improvement in capital structure and debt protection metrics**

The capital structure of the company witnessed gradual improvement as on the account closing dates of the past three fiscals ended on FY19 backed by steady accretion of profit to net worth during the aforesaid period and infusion of subordinated unsecured loans. The overall gearing remained moderate at 1.43x as on March 31, 2019 improved from 1.86x as on March 31, 2017. Further, total indebtedness of the company as reflected by TOL/ANW remained stable and comfortable at 2.04x as on March 31, 2019 improved from 2.68x as on March 31, 2017. The debt protection metrics of the company also witnessed steady improvement backed by healthy growth in profitability and cash accruals during the past three fiscals. The interest coverage gradually improved from 1.57x in FY17 to 2.51x in FY19. Total debt to GCA also improved steadily from 15.78x in FY17 to 6.09x in FY19. Moreover, the interest coverage ratio stood healthy at 2.44x in 9MFY20.

Key Rating Weaknesses

- **Geographical concentration**

The company derives over 95% of revenue from two states only Punjab and Haryana. As a result, it remains vulnerable high geographical concentration risk and any change in demand from the region.

- **Intense competition prevalent in the textile industry and availability of other substitutes**

The company is exposed to intense competition prevalent in the highly fragmented Indian textile industry and faces stiff competition from both organised and unorganised players. Also, the company faces risk from its substitutes such as polyester and manmade fibre. For the competitive landscape, the company faces stiff competition in the domestic market. Further, the margins of the company are under continuous threat of seasonal product cycle.

- **Vulnerability of profitability to fluctuations in raw material prices**

The company's one of the main raw materials is cotton Yarn, which being a seasonal product exhibit fluctuations in prices based on various external factors. Any adverse fluctuation in the raw material prices affects the sales realisations of the finished products. PSML's operating profitability also gets impacted in case it is not able to adequately pass on the price increase to its customers.

- **Elongated operating cycle**

Operations are highly working capital intensive, as reflected in its operating cycle of around 144 days in FY19 driven by inventory and receivables of 103 and around 102 days, respectively.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The company earned a GCA of Rs.8.41 crore in FY19 as against its repayment obligation of Rs.2.04 crore. Further, the liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accrual in the range of ~Rs.9-12 crore during FY20-22 as against its scheduled repayment obligation in the range of ~Rs.2.4-4 crore during the aforesaid period. However, its bank limits remained highly utilized to the extent of ~93% during the past 12 months ended December, 2019 indicating a limited liquidity buffer.

About the Company

Incorporated in 1993, by Mr. Jatinder Pal Singh of Punjab and his family members, PSML is engaged in manufacturing and selling of ladies dress material, shirting fabric and in house dyed and printed fabrics under the brand name 'Ramtex' - through its network of more than 25 distributors and 67 dealers spread across mostly in North region – Punjab, Haryana, Chandigarh & Delhi. The company recently started expanding its network to south & east region and also has plans to start export to Europe in next six months.

The company has its manufacturing facility in Ludhiana (Punjab) with an installed weaving capacity of 68 Lakh MTR p.a. PSML is listed on BSE and CSE.

Financials: Standalone

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	**Audited**
Total Operating Income	117.89	137.78
EBITDA	10.74	16.36
PAT	2.25	5.40
Tangible Net worth	16.95	22.35
^Adjusted Net Worth	29.86	35.86
EBITDA Margin (%)	9.11	11.88
PAT Margin (%)	1.90	3.91
Overall Gearing Ratio (x)	1.78	1.43

**As per Infomerics Standards*

^ *Unsecured loans of Rs.13.51 Cr from the promoters and related parties in FY 19, has been treated as quasi- equity, as these loans are subordinated to bank facilities and will remain in the business till the tenure of the bank facilities..*

Status of non-cooperation with previous CRA: NIL

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	43.00	IVR BBB-/Stable	-	-	-
2	Term Loan	Long Term	19.00	IVR BBB-/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.

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities - CC	-	-	-	43.00	IVR BBB-/Stable
Long Term Bank Facilities – Term Loan	-	-	December 2026	19.00	IVR BBB-/Stable