Press Release

Parmeshwari Silk Mills Limited

June 30, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	62.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Revised
	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) have been revised and downgraded due to lower total operating income and subsequently lower profitability metrics. Nonetheless, comfort from extensive experience of its promoters with demonstrated track record and reputed clientele base. The ratings also positively factor in state-of-the-art manufacturing facilities capacity utilization. However, the rating strengths are partially offset by high geographical concentration and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income 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 Factors**
- 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.
- 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 underpins 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.

State of the art manufacturing facilities with satisfactory capacity utilization

The company owns 58 Sulzer and rapier weaving machines, 71 weaving machines, 3 digital printing machines, 17 embroidery machines and 1 flatbed screen printing machine, as on March 31, 2021. The manufacturing facilities of PSML are certified with air and water pollution certificates and have installed a zero liquid discharge plant that does not waste water and instead recycle it to reduce pollution. Further, the facilities of the company are running with healthy capacity utilisation over the years.

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 FY21 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 1.45x as on March 31, 2021, improved from 1.51x as on March 31, 2020. Further, total indebtedness of the company as reflected by TOL/ANW remained stable and comfortable at 1.89x as on March 31, 2021, improved from 2.13x as on March 31, 2020. Moreover, the interest coverage ratio stood healthy at 1.82x in FY21.

Key Rating Weaknesses

Geographical concentration

The company derives over 95% of revenue from 2 states only Punjab and Haryana. As a result, it remains vulnerable high geographical concentration risk and any change in demand from the region.

Lower Scale of Operations

As compared to previous years, the scale of operations was lower at Rs. 101 crores in FY21 as compared to Rs. 143.10 crore in FY20. The reason for lower scale are the lockdowns due to COVID-19 Pandemic.

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 realizations 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 274 days in FY21 driven by inventory and receivables of 181 and around 163 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. 4.99 crore in FY21 as against its repayment obligation of ~ Rs. 3.00 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.9-11 crore during FY22-24 as against its scheduled repayment obligation in the range of ~Rs. 5-7 crore during the aforesaid period. However, its bank limits remained highly utilized to the extent of ~96.06% during the past 12 months ended April 2021 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 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.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	143.47	101.10
EBITDA	18.98	11.65
PAT	5.35	1.94
Total Debt	63.71	66.25
Adjusted Tangible Net worth	42.20	45.81
EBITDA Margin (%)	13.23	11.52
PAT Margin (%)	3.72	1.92
Overall Gearing Ratio (x)	1.51	1.45

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (02 April 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	43.00	IVR BB+/ Stable (IVR Double B Positive with Stable Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	-	-
2.	Term Loan	Long Term	19.00	IVR BB+/ Stable (IVR Double B Positive with Stable Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	-	-

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.

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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 BB+/ Stable
Long Term Bank Facilities– Term Loan	-	-	-	19.00	IVR BB+/ Stable

(Annexure 2 Facility wise lender details (Hyperlink to be added)

https://www.infomerics.com/admin/prfiles/Lender-Parmeshwari-Silk-Mills-Limited-30-Jun-21-.pdf