



Press Release

Pongalur Pioneer Textiles Private Limited

July 24, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	117.33	IVR BBB-/Positive (IVR Triple B Minus with Positive Outlook)	-	Assigned	Simple
Short Term Facilities	42.00	IVR A3 (IVR A Three)	-	Assigned	Simple
Total	159.33 (Rupees one hundred and fifty-nine crore and thirty three lakh only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The assignment of ratings to the bank facilities of Pongalur Pioneer Textiles Private Limited (PPTPL) factors in improvement in scale of operations and expected further improvement in profitability margins, efficient working capital management. These strengths are further underpinned by the experienced promoters with long track record of operations. The ratings are, however, constrained by moderate financial risk profile, inherent volatility associated with raw material prices and its impact on profitability, highly fragmented, competitive, and cyclical nature of industry.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained growth in scale of operations with improvement in profitability leading to improvement in the debt protection metric & TOL/TNW below 2x.

Downward Factors

- Any decline in revenue and profitability leading to deterioration in debt protection metrics & capital structure.



Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record of operations**

PPTPL was incorporated in the year 1990 by Mr. V.Selvapathy. The company has an established track record of operation of more than three decades in the spinning industry. Further, the promoters have been associated with the industry and have gained significant amount of experience along with maintaining healthy and long-term relationship with its customers and suppliers. The extensive experience of the promoters and established track record of operation has helped the company to maintain long standing relations with some of the reputed players in the industry and aid the company in securing repeated orders on a regular basis.

- **Improved scale of operations and expected further improvement in profitability margin**

The company's revenue increased due to addition of new spindles and modernisation of existing spindles. This led to increase in operating income and profitability margins. The company's revenue improved to Rs.239.90 Cr in FY24 (provisional) (refers to period April 01, 2023 to March 31, 2024) from Rs.221.03 Cr in FY23 (refers to period April 01, 2022 to March 31, 2023) and Rs.192.84 Cr in FY22. The EBITDA margin of the company remained fluctuated due to the downward trend in the industry in FY23, However, their EBITDA margins were protected to some extent due to the company's concentration into high yarn manufacturing. The EBITDA margins stood at 11.45% in FY24 as against 8.06% in FY23 and 13.23% in FY22. Improvement in the profitability margin in FY24 and going forward due to the benefits of economies of scale from the recently done capex and also decline in the power cost due to power capex, as 70% of the power requirement is sufficient by the existing solar and windmill power. Infomerics expects that the company's revenue and profitability are expected to improve owing to the capex related to the enhancement in the capacity and installation of captive power.



Press Release

- **Efficient working capital management**

The cotton industry is marked by high inventory holding levels. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement for upcoming 5-6 months until the start of the next season. Average inventory period stood at 51 days as on March 31, 2024. The operating cycle stood very comfortable at 6 days as on March 31, 2024 (2 days as on March 31, 2023). The debtor days stood at 7 days as on March 31, 2024 (8 days as on March 31, 2023). The creditor days stood at 79 days as on March 31, 2024 (72 days as on March 31, 2023).

Key Rating Weaknesses

- **Moderate financial risk profile**

The company's capital structure stood moderate including debt protection metrics. The networth of the company stood at Rs.50.29 Cr as on March 31, 2024 (March 2023: Rs.42.06 Cr and March 2022: Rs.38.59 Cr). This included unsecured loans treated as quasi equity to the extent of Rs.6.37 Cr as on March 31, 2024 (March 2023: Rs.4.74 Cr and March 2022: Rs.1.32 Cr). Overall gearing stood at 2.47x and 1.98x as of March 31, 2024 and 2023 respectively. Interest coverage ratio stood at 2.34x and 1.96x as on March 31, 2024 (prov.) and 2023 respectively. Infomerics believes that financial risk profile expected to improve over the period.

- **Inherent volatility associated with raw material prices and its impact on profitability**

The company's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players.



Press Release

- **Highly fragmented, competitive, and cyclical nature of industry**

The Indian textile industry consists of large, organized players who contribute to 75 per cent of total installed capacity and the remaining 25 per cent is contributed by unorganized segment. PPTPL is a relatively medium player in this space, thereby lacking the benefits of economies of scale. The intense competition in the highly fragmented textile industry also restricts its ability to completely pass on volatility in input cost to its customers. The company is in the textile industry pre-dominantly dependent on cotton.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

[Financial Ratios & Interpretation \(Financial Sector/Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity – Adequate

Liquidity is adequate marked with sufficient accruals to repay its term debt obligations. The company generated GCA of Rs.17.16 Cr in FY24 as against the repayment obligation of Rs.13.11 Cr for the same period. The company's projected GCA is expected to be sufficient for the projected debt repayment. The company's working capital limits average utilisation stood at 82% for past twelve months ended May 2024. Current ratio stood at 0.97 times as on March 31, 2024 as against 1.09 times as on March 31, 2023. Cash and cash equivalents of the company stood at Rs.0.30 Cr as on March 31, 2024 as against Rs.0.21 Cr as on March 31, 2023.

About the Company

Tamil Nadu based Pongalur Pioneer Textiles Private Limited was incorporated in the year 1990. The company is engaged in manufacturing of yarn with fine counts of 60's-120's. The company has present spindles capacity of 1,20,000 and solar power capacity of 12 MW and 1.67 MW of wind power. The captive power suffices 70% of the company's power requirement.



Press Release

Financials (Standalone):

For the year ended/ As on*	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	221.03	239.90
EBITDA	17.82	27.48
PAT	0.05	6.60
Total Debt	83.19	124.33
Tangible Net Worth	42.06	50.29
EBITDA Margin (%)	8.06	11.45
PAT Margin (%)	0.02	2.72
Overall Gearing Ratio (x)	1.98	2.47
Interest Coverage (x)	1.96	2.34

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: India Ratings has continued to classify the ratings of Pongalur Pioneer Textiles Private Limited to Issuer not Cooperating vide its press release dated July 14, 2024 due to non-availability of adequate information.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term Fund Based Facilities – Cash Credit	Long Term	7.75	IVR BBB-/Positive	-	-	-
2.	Long Term Fund Based Facilities – Term Loan	Long Term	109.58	IVR BBB-/Positive	-	-	-
3.	Short Term Non-Fund Based Facilities – Letter of Credit	Short Term	42.00	IVR A3	-	-	-



Press Release

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Press Release

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	7.75	IVR BBB-/Positive
Term Loans	-	-	-	Up to July 2034	109.58	IVR BBB-/Positive
Letter of Credit	-	-	-	-	42.00	IVR A3

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Pongalur-Pioneer-24july24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.