PBM Polytex Limited

February 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	26.75 (Reduced from 28.75)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	6.44 (Reduced from 8.44)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**33.19 (Rs. Thirty-Three Crore and Nineteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PBM Polytex Limited (PPL) continue to derive strength from its long and efficient track record of operations in manufacturing & processing of cotton yarn, vast experience of its promoters in the cyclical cotton yarn industry along with its established marketing network and clientele. The ratings further derive strength from PPL's comfortable leverage and moderate debt coverage indicators, efficient working capital management practices and its adequate liquidity backed by unencumbered investments.

The ratings, however, remain constrained on account of PPL's moderate scale of operations with fluctuating profitability and its low ROCE, which however, improved in significantly in H1FY22 (FY refers to the period from April 1 to March 31). The rating also continue to remain constrained due to its presence in competitive and cyclical cotton yarn industry with regulatory risk associated and susceptibility of its profitability to volatility in cotton and cotton yarn prices.

Rating Sensitivities

Positive Factors

- Significant growth in its total operating income along with sustained improvement in PBILDT margin to a range of 13%-15% while maintaining overall gearing ratio less than 0.5 times.
- Sustained improvement in its ROCE to 15%.

Negative Factors

- Significant moderation in liquidity of the company along with deterioration in its leverage.
- Significant decline in scale of operations with PBILTD margin below 5% on sustained basis.

Outlook: Stable

The revision in outlook on the long-term rating of the bank facilities of PPL from "Negative" to "Stable" is on account of recovery in cotton spinning industry post Covid 19 induced disruption resulting in better than envisaged profitability in FY21 and further improvement in TOI and PBILDT margin during H1FY22 supported by better sales realization with increase in cotton prices.

Detailed description of the key rating drivers

Key Rating Strengths

Long and efficient operational track record in cotton yarn industry

PPL has a long standing track record of more than nine decades in the textile (cotton yarn) manufacturing industry. PPL's key promoters also have an experience of over four decades in cotton yarn manufacturing business. Textile is an inherently cyclical and challenging industry due to larger number of external factors affecting the operational and financial performance of entities in the sector; in spite of which the promoters of PPL have managed the operations of the company efficiently over four decades. Further, TPPL has been able to efficiently control two of the major operational costs in cotton yarn industry - power & fuel cost and wages and salaries cost. The employee cost of the company grew at compounded annual growth rate (CAGR) of only 1% in last three year ended FY20 and in FY21 the company had undertaken cost control measures during COVID lockdown resulting in 11% decline in employee cost over FY20. Further, the power and fuel cost of the company remained relatively stable at an average of 13.53% of its total operating income in last three years ended FY21 which is also marginally better than the industry average.

PPL has an established domestic marketing network along with good presence in export market. On an average (for last three years) PPL has generated around 30-40% of its total operating income (TOI) from exports.

Efficient working capital management practices with comfortable leverage

PPL has long standing relationships with most of its customers with majority of them being associated with the company for more than two decades. PPL's relationship with credible customers and strict policy of selling only against letter of credit (for exports) ensures timely collections and comfortable liquidity throughout the year. Furthermore, owing to the conservative approach of its management, PPL invests most of its unencumbered surplus funds in – liquid / short-term mutual funds (Rs.40.13 crore as on

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

September 30, 2021). Moreover, owing to significant amount of surplus funds available, the utilization of its fund based working capital debt for cotton procurement remains negligible.

Comfortable leverage and debt coverage indicators
PPL continued to operate at a comfortable leverage as indicated by its overall gearing of 0.004x as on March 31, 2021 owing to absence of any long-term debt along with very low utilization of its working capital limits. Company's liquidity remained better as compared to other industry players due to absence of term debt liabilities, lower reliance on working capital borrowing and availability of healthy liquid investments.PPL's debt coverage indicators like TD/GCA continued to remain comfortable at 0.06x in FY21. PBILDT interest coverage increased to a very comfortable level at 12 times during FY21. Also, debt coverage indicators improved further in H1FY22 with TD/GCA standing at 0.10x and interest coverage at 36.76x..

Recovery in cotton spinning industry
Indian cotton spinners are riding high on strong demand and realisations and have reported multi-year high operating profits in the past four quarters, even as cotton fibre prices increased parallelly. Besides recovery in domestic demand, robust growth in export demand has also supported volumes. This apart, inclusion of all cotton yarn exports under Remission of Duties and Taxes on Exported Products (RoDTEP) scheme from January 2021 onwards (as notified in August 2021) has also supported margins as well as price competitiveness of domestic spinners in international markets.

Key Rating Weaknesses
Moderate scale of operation with fluctuating profitability which however, improved in significantly in H1FY22
Total operating income (TOI) of the company declined by 9% on y-o-y basis and stood moderate at Rs.155 crore during FY21 as compared to Rs.171 crore during FY20 on account of lower sales volume (cotton yarn's volume lowered by 8% on y-o-y basis) amidst Covid 19 disruptions which had shown recovery in H2FY21. Also, with strong export sales and increasing prices, during H1FY22, PPL had shown healthy growth in TOI.
During FY21, PBILDT margin had improved with cost control measures undertaken by company and increasing cotton prices in H2FY21 and recovery in demand resulting in better sales realisation. Furthermore, company had high inventory levels as on March 31, 2021 which company was able to capitalize in H1FY22 which continue to witness increasing price trend, resulting in healthy PBILDT margin of 15%. However, going forward same is expected to moderate to certain extent.

Susceptibility of profitability to volatility in cotton prices
Textile is a cyclical industry and closely follows the macroeconomic business cycles. High competitive intensity in the textile industry, volatility of cotton prices, elevated inflation levels and sluggish demand outlook from developed markets are the major causes of concern for the Indian textile industry. Prices of raw cotton are volatile in nature and depend upon factors like area under production, yield for the year, international demand-supply scenario, inventory carry forward from previous year, along with setting of export quota and minimum support price (MSP) by the government.
Companies (Like PPL) which had higher stocks of lower cost cotton from the previous season benefitted more in terms of profitability in H1FY22. However, with limited bargaining power, profitability of players like PPL is susceptible for volatile prices.
Moreover, PPL generates around 30-40% of its revenue from export sales and procures entire requirement for raw material from domestic market, which further exposes its profitability to risk associated with fluctuations in foreign exchange rates. However, the company follows the prudence practice of hedging its entire foreign exchange exposure through forward contract.

Presence in highly fragmented and competitive industry with limited product differentiation
The yarn manufacturing industry in India is highly fragmented and dominated by a large number of small scale units leading to high competition in the industry. Smaller standalone units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared with larger integrated textile companies who have better efficiencies and pricing power considering their scale of operations. Due to the fragmented nature of the industry, the ability to pass on the increase in raw material prices to the end customers is limited and is usually accompanied by a time lag.

Liquidity: Adequate
PPL's liquidity continued to remain adequate on account of no term debt repayment obligations, negligible utilization of its working capital limits and efficient management of its working capital. PPL offers a credit period of around 20-30 days to its customers. Further, PPL's relationship with credible customers and its strict policy of selling only against letter of credit ensures timely collections and comfortable liquidity throughout the year. PPL maintains an inventory of around 120-140 days to ensure smooth delivery to its customers throughout the year and to avail quantity discounts from its suppliers.
PPL's fund-based working capital limits remained almost unutilized during trailing 12 months ended October, 2021. Further, PPL's current ratio continued to remain comfortable at 3.41 times as on March 31, 2021. PPL held Rs.8.87 crores of cash and liquid investments as on March 31, 2021 (Including Rs. 0.41 Crs. of unclaimed dividend) which increased to Rs. 40.13 crore as on September 30, 2021.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Rating methodology for Cotton Textile Manufacturing

About the Company
Incorporated in 1919, PPL (CIN: L17110GJ1919PLC000495) was earlier known as The Petlad Bulakhidas Mills Co. Ltd. The current management (i.e. the Patodia family) took over the company in 1978 and since then has gradually expanded and modernized its facilities for manufacturing and processing cotton yarn. As on September 30, 2021, PPL had an installed capacity of 57,600 spindles and 672 rotors (for manufacturing yarn with count range of Ne 8's to Ne 80's). Its manufacturing facilities are located at Petlad in Anand district of Gujarat and at Borgaon in Madhya Pradesh. PPL has also set up wind mills in Gujarat with aggregate capacity of 3 MW.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	171.10	155.49	210.34
PBILDT	2.66	7.67	19.85
PAT	-0.27	3.14	13.11
Overall gearing (times)	0.02	0.00	0.01
Interest coverage (times)	4.07	12.68	36.76

A: Audited; UA: Unaudited
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	-	26.75	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	6.44	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (22-Nov-19)	1)CARE A-; Stable (13-Mar-19)
2	Fund-based-Long Term	LT	26.75	CARE BBB+; Stable	-	1)CARE BBB+; Negative (23-Dec-20)	1)CARE BBB+; Stable (22-Nov-19)	1)CARE A-; Stable (13-Mar-19)
3	Non-fund-based - ST-BG/LC	ST	6.44	CARE A2	-	1)CARE A2 (23-Dec-20)	1)CARE A2 (22-Nov-19)	1)CARE A2+ (13-Mar-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I - Ratios	Cuurent ratio>2times , Interest coverage>2 times and TOL/TNW<3 times
B. Non financial covenants	
I - Change in management	Prior approval of bankfor any change in the management set-up/capital structure

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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