Parmeshwari Silk Mills Limited

July 01, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	65.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Total Facilities	**65.00 (Rs. Sixty-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Parmeshwari Silk Mills Limited (PSML) is primarily constrained by its modest and fluctuating scale of operations and elongated operating cycle. Further, the rating is also constrained by risk associated with its susceptibility to fluctuations in raw material prices and regulatory changes and its presence in fragmented and cyclical textile industry.

The rating, however, draws comfort from experienced promoters coupled with long track record of operations, favorable location of operations and established marketing network, moderate profitability margins, capital structure and moderate debt coverage indicators.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations to around Rs.180.00 crore and above over the medium term on sustained basis.
- Improvement in the operating cycle of the company for less than 100 days.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure as marked by overall gearing ratio of above 2.00x.
- Decline in debt coverage indicators as marked by interest coverage ratio of below 1.00x and total debt to gross cash accruals of above 14.00x respectively.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest and fluctuating scale of operations: PSML's scale of operations stood modest as evident from total operating income (TOI) of Rs.145.30 crore and gross cash accruals of Rs.7.90 crore respectively, during FY22 (FY refers to the period April 1 to March 31) as against Rs.101.20 crore and Rs.4.81 crore respectively, during FY21. Moreover, PSML's scale of operations remained fluctuating for the period FY20-FY22 (refers to the period April 1 to March 31). TOI declined in FY21 over FY20 and thereafter registered improvement in FY22. The same was mainly on account of higher intake from its existing customers. The modest scale limits the company's financial flexibility in times of stress and deprives it of scale benefits. Furthermore, during 2MFY23 (refers to the period April 1 to May 31; based on provisional results); the company has achieved the total operating income of ~Rs.30.00 crore.

Elongated operating cycle: The operations of the company stood elongated marked by operating cycle of 197 days for FY22 as against 263 days for FY21 on account of efficient management of its inventory holding coupled with better realization from its customers. The inventory holdings are mainly in the form of raw materials and work in process. The company manufactures different variety of fabrics (different type of color, embroidery design, etc.) resulting in high requirement of raw materials. Furthermore, the company is required to maintain adequate inventory at each processing stage for smooth running of its production processes like weaving, dyeing, printing, embroidery, finishing and packaging. Entailing these resulted into an average inventory holding period of 137 days for FY22. The company has to offer liberal credit period of around 3-4 months to its customers resulting in an average collection period of 109 days for FY22. The company receives payable period of around 30-60 days from its suppliers. The working capital borrowings of the company remained almost 90% utilized during the past 12 months ending May, 2022.

Susceptibility to fluctuations in raw material prices and regulatory changes: PSML'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. Furthermore, the textile industry also witnesses regulatory risks such as change in domestic and international government policies related to subsidies or imports / exports tariffs, which also affects the industry players across the value chain.

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

Presence in fragmented and cyclical textile industry: The textile industry in India is highly fragmented and dominated by a large number of medium and small-scale unorganized players leading to high competition in the industry. Furthermore, textile is a cyclical industry and closely follows the macroeconomic business cycles. The prices of raw materials and finished goods are also determined by global demand supply scenario. Hence, any shift in macroeconomic environment globally would have an impact on the domestic textile industry. Also, there is stiff competition from Bangladesh, Vietnam and Pakistan in terms of cotton exports. Exports of Indian cotton yarn to the European Union (EU) and China declined in the past years as the market share of Indian spinners has been taken over by Vietnam, as the nation enjoys duty-free access to the Chinese market. Hence, the domestic and export demand for yarn and textile remains crucial for the yarn manufacturers.

Key Rating Strengths

Experienced promoters coupled with long track record of operations: PSML is directed by Mr. Jatinder Pal Singh, Ms. Arvinder Kaur, Mr. Puneet Singh Taneja and Ms. Harinder Kaur. Mr. Jatinder Pal Singh (Chairman & Managing Director) is graduate by qualification and has accumulated experience of nearly three decades in the textile industry through his association with this entity and looks after the overall operations of the company. He is ably supported by Ms. Harinder Kaur in managing day-to-day operations of the entity. Further, the directors are assisted by a team of qualified managerial personnel and technical team having relevant experience in their respective fields. The company is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Favorable location of operations and established marketing network: The manufacturing facilities of the company is situated in Ludhiana which is a well-established manufacturing hub of textiles. PSML derives the comfort from its strategic location in terms of easy accessibility to a large customer base as well as ready availability of raw materials owing to established suppliers' presence in the same location as well.

The company sells its entire range of products under the brand name "Ramtex" through a well-established marketing network, consisting of more than 20 distributors/dealers based out in Punjab, Haryana, Delhi, Rajasthan and West Bengal catering to more than 200 retailers across India. The product has great acceptance in the markets belonging to the state of Punjab & Haryana. Established marketing network aids the company in better market penetration and reaching the customers which further add additional credibility to the products of the company.

Moderate profitability margins, capital structure and debt coverage indicators: The profitability margins of the company stood moderate during last three financial years (FY20-FY22); since the profitability is directly associated with embroidery design aspect of the order. Higher and complex the design, fetches better margins. However, PBILDT margin of the company declined and stood at 9.88% in FY22 as against 11.55% in FY21 owing to increase in overhead expenses such as raw material cost, labour charges, etc. However, PAT margin marginally improved and stood at 2.64% in FY22.

The capital structure of the company stood moderate as on the past three balance sheet dates ending March 31, '20-'22 on account of limited debt levels against the satisfactory net worth base. Overall gearing ratio stood at 1.39x as on March 31, 2022 showing marginal improvement from 1.46x as on March 31, 2021 mainly on account of marginal improvement in networth due to accretion of profits to net reserves. Moreover, the unsecured loan to the tune of Rs.16.16 crore in year FY19, FY20 and FY21 respectively is classified as quasi equity as the same is subordinated to debt as per sanction letter.

Further, on account of moderate profitability margins, the debt coverage indicators of the company stood moderate as marked by interest coverage ratio and total debt to GCA of 2.58x and 8.85x respectively, for FY22 as against 1.82x and 13.77x respectively for FY21. The improvement is on the back of substantial increase in PBILDT owing to increase in its scale of operations coupled with low finance cost, consequently leading to higher gross cash accruals.

Liquidity: Adequate

The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company has reported gross cash accruals to the extent of Rs.7.90 crore during FY22 and is expected to generate envisaged GCA of Rs.8.15 crore for FY23 against repayment obligations of Rs.6.39 crore in same year. However, the average utilization of its working capital limits stood around 90% for the past 12 month's period ending May, 2022. Further, the company has low free cash & bank balances of Rs.0.56 crore as on March 31, 2022.

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
Cotton Textile
Manufacturing Companies

About the Company

Ludhiana, Punjab based Parmeshwari Silk Mills Limited (PSML) was incorporated as a public limited company (Listed) in January, 1993. The company is currently directed by Mr. Jatinder Pal Singh, Ms. Arvinder Kaur, Mr. Puneet Singh Taneja and Ms. Harinder Kaur. The company is engaged in the manufacturing of unstitched suit fabrics and plain fabrics for women under its own brand name "Ramtex". The company has its own manufacturing facility for weaving, embroidery and digital printing located at Ludhiana,

Punjab and has 70 rapier & sulzer weaving machines (weaving capacity of 75 lakh meters per annum), 11 embroidery machines, 3 digital printing machines and 1 flatbed screen printing machine as on March 31, 2022.
The company sells its products through a chain of distributors/dealers based out in Punjab, Haryana, Delhi, Rajasthan and West Bengal catering to more than 200 retailers across India. It is also making ~1% export of its product to Canada.
The company is having one associate concern namely; "Ramtex Exports" (established in 1991) engaged in the fabrication of fabrics.

Brief Financials (Rs. crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	143.47	101.20	145.30
PBILDT	18.88	11.69	14.36
PAT	5.35	1.70	3.84
Overall gearing (times)	1.42	1.46	1.39
Interest coverage (times)	2.22	1.82	2.58

A: Audited

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 firm: Annexure- 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE BB+; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	0.89	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	28.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	March, 2026	8.91	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	June, 2029	12.20	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (12-Jul-19)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (12-Jul-19)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	-	1)Withdrawn (12-Jul-19)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (15-Dec-21) 2)Withdrawn (15-Dec-21) 3)CARE BB; Stable; ISSUER NOT COOPERATING* (20-Jul-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (05-Oct-20)	1)CARE BB+; Stable (25-Sep-19)
5	Fund-based - LT-Cash Credit	LT	15.00	CARE BB+; Stable	-	-	-	-
6	Fund-based - LT-Proposed fund based limits	LT	0.89	CARE BB+; Stable	-	-	-	-
7	Fund-based - LT-Cash Credit	LT	28.00	CARE BB+; Stable	-	-	-	-
8	Fund-based - LT-Term Loan	LT	8.91	CARE BB+; Stable	-	-	-	-
9	Fund-based - LT-Term Loan	LT	12.20	CARE BB+; Stable	-	-	-	-

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Proposed fund based limits	Simple
3	Fund-based - LT-Term Loan	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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