

## PBM Polytex Limited

March 08, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	26.75	CARE BBB+; Stable	Reaffirmed
Short Term Bank Facilities	6.44	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

### 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 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. 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. The rating also factors in exceptional margins in FY22 (FY refers to the period from April 1 to March 31) which declined significantly in 9MFY23.

### Rating sensitivities: Factors likely to lead to rating actions

#### 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

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook reflects that entity is likely to sustain its financial risk profile in near term on back of its comfortable leverage and healthy liquidity available with the company and no major debt funded capex plan in near future.

### Key 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) 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, PPL has been able to efficiently control major operational costs. 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 FY22 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 30-45% 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.43.41 crore as on

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

December 31, 2022). With significant amount of surplus funds available, the utilization of its fund based working capital debt for cotton procurement remains negligible during 9MFY23.

#### **Comfortable leverage and debt coverage indicators**

PPL continued to operate at a comfortable leverage as indicated by its overall gearing of 0.005x as on March 31, 2022 owing to absence of any long-term debt along with negligible 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 and PBILD interest coverage has improved and remained comfortable in FY22 with exception profitability but had moderated significantly in 9MFY23 with decline in margins. However, considering the low reliance of debt and healthy liquidity available with company, CARE expects company to maintain its healthy debt coverage indicators in near term.

#### **Volatility in cotton spinning industry**

Indian cotton spinners had ridden high on strong demand and realisations and have reported multi-year high operating profits in FY22, even as cotton fibre prices increased parallelly. FY22 and Q1FY23 recorded a significant increase in cotton prices month-on-month (m-o-m) up to May 2022, post which there was some moderation, given the decline in demand, especially in exports. Besides recovery in domestic demand, robust growth in export demand has also supported volumes during FY22. 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. However, the cotton yarn exports during 9MFY23 have been significantly hit, as domestic cotton prices remained high, impacting India's competitiveness globally.

#### **Key Weaknesses**

##### **Moderate scale of operation with fluctuating profitability**

Total operating income (TOI) of the company increased significantly by 65% on y-o-y basis and stood at Rs. 255 crore during FY22 as compared to Rs.155 crore during FY21 on account of increase in cotton prices and sales volume (cotton yarn's volume increased by 17% on y-o-y basis). Also, with strong export sales and increasing prices, during FY22, PPL had shown healthy growth in TOI and Profitability. However, the scale of operations and profitability moderated in 9MFY23 due to reversal in trend of cotton price and stood at 2.20% and is expected to remain in the range of 5% - 6% during medium term except FY23.

##### **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 FY22. However, with limited bargaining power, profitability of players like PPL is susceptible for volatile prices. Moreover, PPL generates around 30-45% 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, healthy cash and bank balance 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 (for exports) ensures timely collections and comfortable liquidity throughout the year. PPL maintains an inventory of around 110-140 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 December, 2022. Further, PPL's current ratio continued to remain comfortable at 3.84 times as on March 31, 2022. PPL held Rs. 43.41 crores of cash and liquid investments as on December 31, 2022 accumulated mainly on back of reduction in inventory level as compared to March 2022.

## 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](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

## About the company and industry

### Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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 December 31, 2022, 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	154.57	255.38	152.23
PBILDT	6.74	32.28	3.35
PAT	3.14	23.00	0.36
Overall gearing (times)	0.00	0.01	0.00
Interest coverage (times)	11.15	35.17	7.44

A: Audited; Unaudited; Note: the above results are latest financial results available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Covenants of rated instruments / facility:** Not applicable

**Complexity level of various instruments rated:** Annexure- 4

**Lender details:** Annexure-5

### Annexure 1: Details of Instrument/Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 (₹ 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	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (22-Nov-19)
2	Fund-based-Long Term	LT	26.75	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Feb-22)	1)CARE BBB+; Negative (23-Dec-20)	1)CARE BBB+; Stable (22-Nov-19)
3	Non-fund-based - ST-BG/LC	ST	6.44	CARE A2	-	1)CARE A2 (07-Feb-22)	1)CARE A2 (23-Dec-20)	1)CARE A2 (22-Nov-19)

\* Long Term / Short Term

**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-Long Term	Simple
2	Non-fund-based - ST-BG/LC	Simple

## Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings 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.

## Contact us

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