Parmeshwari Silk Mills Limited

September 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	73.00 (Enhanced from 65.00)	CARE BB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Parmeshwari Silk Mills Limited (PSML) continues to remain constrained by its modest albeit growing scale of operations on account of addition of new distributors and elongated operating cycle due to high inventory holding. Further, the rating continues to remain 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, continues to draw comfort from experienced promoters coupled with long track record of operations, favourable location of operations and established marketing network, moderate profitability margins, moderate capital structure and debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent improvement in scale of operations as marked by total operating income of above Rs.200.00 crore on sustained basis.
- Improvement in the operating cycle of the company for less than 100 days.

Negative factors

- 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.
- Deterioration in PBILDT margins below 7.50% on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects that company will continue to benefit from the experienced promoters in the textile industry and shall sustain its moderate financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key weaknesses

Modest albeit growing scale of operations: PSML's scale of operations continue to remain modest though growing as evident from total operating income (TOI) of Rs.172.77 crore and gross cash accruals (GCA) of Rs.8.50 crore respectively, during FY23 (FY refers to the period April 1 to March 31) as against Rs.145.30 crore and Rs.7.90 crore respectively, during FY22. The modest scale limits the company's financial flexibility in times of stress and deprives it of scale benefits. Though, the risk is partially mitigated by the fact that the PSML's scale of operations has been on a growing trend registering a CAGR of about 30.66% during FY21-23. The increase in TOI is primarily on account of higher intake from its existing customers owing to healthy demand for the products. Further, the company has achieved total operating income of Rs.51.09 crore and gross cash accruals of Rs.2.38 crores during Q1FY24 (refers to the period from April 1, 2023 to June 30, 2023; based on unaudited results) and is expected to achieve a turnover of ~Rs.200.00 crore for FY24.

Elongated operating cycle: The operations of the company improve though stood elongated at 171 days for FY23 as against 197 days for FY22 on account of efficient management of its inventory holding coupled with improved realization from its customers. The inventory comprises 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. Further, the company is required to maintain adequate inventory at each processing stage for smooth running of its production processes like weaving, dyeing,

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

printing, embroidery, finishing and packaging. Entailing these resulted into an average inventory holding period of 124 days for FY23. The company has to offer liberal credit period of around 3-4 months to its customers resulting in an average collection period of 98 days for FY23. The company receives payable period of around 2-3 months from its suppliers. The working capital borrowings of the company remained almost 90% utilized during the past 12 months ending August, 2023.

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. The prices of raw cotton have been volatile over the last couple of years, which translates into risk of inventory losses for the industry players. Further, 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.

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. Further, the textile industry is a cyclical in nature and closely follows the macroeconomic business cycles. The prices of the raw materials and finished goods are also determined by the 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. The exports of Indian cotton yarn to the European Union (EU) and China has 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 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, Ms. Harinder Kaur, Ms. Priya Begana and Mr. Khushvinder Bir Singh. Mr. Jatinder Pal Singh, (Chairman) is graduate by qualification and has an accumulated experience of around 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 the day-to-day operations of the entity. Further, the directors are assisted by a team of qualified managerial personnel and a technical team having relevant experience in their respective fields. The company is having a considerable track record in this business which has resulted in the 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 25 distributors/dealers based out in Punjab, Haryana, Delhi, Rajasthan and West Bengal across India. The product has great acceptance in the markets belonging to the state of Punjab & Haryana and are exploring the markets in Delhi also. The 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: The profitability margins of the company stood moderate during last three financial years (FY21-FY23); since the profitability is directly associated with embroidery design aspect of the order. The complex design, fetches better margins. However, PBILDT margin of the company declined and stood at 9.60% in FY23 as against 9.88% in FY22 owing to high competition in the market, wherein the company has to trade off its margins in order to scale up its operations. However, PAT margin marginally improved and stood at 3.20% in FY23 as against 2.64% in F22. During Q1FY24, PBILDT and PAT margin further moderated and stood at 8.89% and 2.98% respectively. Going forward, PBILDT margins are expected to remain in the same range in the coming year.

Moderate capital structure and debt coverage indicators: The capital structure of the company stood moderate as on the past three balance sheet dates ending March 31, '21-'23 on account of limited debt levels against the satisfactory net worth base. The overall gearing ratio stood at 1.31x as on March 31, 2023 showing marginal improvement from 1.39x as on March 31, 2022 on account of repayment of loans coupled with accretion of profits to net reserves. Further, the capital structure is expected to remain moderate as envisage in the near to medium term.

Further, on account of moderate profitability margins, the debt coverage indicators of the company continue to remain moderate as marked by the interest coverage ratio and total debt to GCA which stood at 2.54x and 8.68x respectively, for FY23 as against 2.58x and 8.85x respectively for FY22. The marginal improvement is on the back of repayment of loans consequently leading to decline in total debt levels. During Q1FY24, the interest coverage ratio stood at 2.79x and is expected to remain at similar levels over the medium term.

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 net cash accruals (NCA) to the extent of Rs.8.50 crore during FY23 and is expected to generate NCA of Rs.9.20 crore for FY24 against repayment obligations of Rs.6.91 crore in same year. However, the average utilization of its working capital limits stood around 90% for the past 12 month's period ending August, 2023. The company also has low free cash & bank balances of Rs.0.18 crore as on March 31, 2023.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Garments & Apparels

Ludhiana, Punjab based Parmeshwari Silk Mills Limited (PSML) was incorporated as a public limited company (Listed) in January, 1993. The company is currently managed by Mr. Jatinder Pal Singh, Ms. Arvinder Kaur, Mr. Puneet Singh Taneja, Ms. Harinder Kaur, Ms. Priya Begana and Mr. Khushvinder Bir Singh. 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. 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 and London.
The company is having one associate concern namely; "Ramtex Exports" (established in 1991) engaged in the fabrication of fabrics.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)*
Total operating income	145.30	172.77	51.09
PBILDT	14.36	16.59	4.54
PAT	3.84	5.52	1.52
Overall gearing (times)	1.39	1.31	NA
Interest coverage (times)	2.58	2.54	NA

A: Audited; UA.: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'
*refers to the period from April 1, 2023 to June 30, 2023.

Status of non-cooperation with previous CRA: CRISIL Ratings has conducted the review and has classified Parmeshwari Silk Mills Limited as "Not Cooperating" vide its press release dated December 30, 2022.

Any other information: Not Applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/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 - LT-Cash Credit		-	-	-	22.00	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	28.00	CARE BB+; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	0.71	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	December, 2030	13.16	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	June, 2029	9.13	CARE BB+; Stable

Annexure-2: Rating history for the 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 2023-2024	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
1	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)
2	Fund-based - LT-Cash Credit	LT	22.00	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Jul-22)	-	-
3	Fund-based - LT-Proposed fund based limits	LT	0.71	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Jul-22)	-	-

4	Fund-based - LT-Cash Credit	LT	28.00	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Jul-22)	-	-
5	Fund-based - LT-Term Loan	LT	13.16	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Jul-22)	-	-
6	Fund-based - LT-Term Loan	LT	9.13	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Jul-22)	-	-

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: 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.

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