PBM Polytex Limited

January 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	26.75	CARE BBB+; Negative	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	6.44	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and 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, 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, decline in profitability in FY23 (FY refers to the period from April 1 to March 31) along with operating losses reported in H1FY24 with susceptibility of its profitability to volatility in cotton prices as well as foreign exchange fluctuation risk and moderation in debt coverage indicators. The ratings also continue to remain constrained due to its presence in competitive and cyclical cotton yarn industry.

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 above 10% while maintaining overall gearing ratio less than 0.5 times.
- Sustained improvement in its ROCE to above 15%.

Negative Factors

- Significant moderation in liquidity of the company with debt exceeding liquid investments.
- Significant decline in scale of operations with PBILTD margin below 5% on sustained basis.

Analytical approach: Standalone

Outlook: Negative

The outlook on the long-term rating of PPL has been revised from 'Stable' to 'Negative' on the back of Care Ratings Limited's (CARE Rating's) expectation that operational performance of PPL may remain subdued on the back of volatility in cotton prices and subdued demand which may impact its liquidity and debt coverage indicators over the medium term. The outlook shall be revised to 'Stable' in case PPL reports improvement in operational performance resulting in improvement in debt coverage indicators and sustenance of its liquidity.

Detailed description of the key rating drivers

Key Strengths

Long and efficient track record in cotton yarn industry with experienced promoters and established marketing network

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 this industry. 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; despite this, the promoters of PPL have managed the operations of the company efficiently over four decades. Further, PPL 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 power and fuel cost of the company remained relatively stable at an average of 10-15% of its total operating income in last five years ended FY23.

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

Furthermore, PPL has an established domestic marketing network along with good presence in export market. However, due to sluggish export demand in the overall textile segment, PPL was able to generate around 28% of its total operating income (TOI) from exports in FY23 as against 43% in FY22.

Established clientele with efficient working capital management practices

PPL has long standing relationship 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 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.35.22 crore as on November 30, 2023). With a significant amount of surplus funds available, the utilization of its fund based working capital debt remained negligible over the past 12 months ended November 2023.

Comfortable leverage albeit moderation in debt coverage indicators

PPL continued to operate at a comfortable leverage as indicated by its overall gearing of 0.005x as on March 31, 2023 owing to absence of any long-term debt and negligible utilization of its working capital limits. However, with decline in profitability in FY23, PPL's interest coverage moderated significantly to 2.74x in FY23 (35.17x in FY22) while total debt/ GCA remained comfortable at 0.17x (0.03x in FY22) due to continued low reliance on debt.

Key Weaknesses

Moderate scale of operation with decline in profitability

PPL's scale of operation marked by total operating income (TOI) declined in FY23 to Rs. 202.85 crore as against Rs. 255.38 crore in FY22 (which was exceptionally high due to significant rise in cotton prices) on the back of sluggish demand. In H1FY24, performance continued to remain subdued with declining cotton prices as well as continued sluggish demand mainly from exports market. With this, PPL reported TOI of Rs. 50.72 crore in H1FY24.

While profitability of PPL was impacted in FY23, it reported operating losses in H1FY24 due to inventory loss on the back of declining trend of cotton prices coupled with sluggish demand resulting in lower spread as well as lower absorption of overheads due to lower sales volume.

Susceptibility of profitability to volatility in cotton prices and foreign exchange fluctuation risk

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.

Further, PPL generated around 25% to 45% of its revenue from export sales in previous three years and procures entire requirement for raw material from domestic market. Hence, its entire export sales are exposed to foreign exchange fluctuation risk. However, PPL books forward cover for its export orders. Thus, during FY23, PPL reported the negligible net foreign exchange fluctuation loss of Rs.0.38 crore (FY22: loss of Rs. 0.26 crore).

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/decrease 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 100-130 days to ensure smooth delivery to its customers throughout the year and to avail quantity discounts from its suppliers. Hence, operating cycle continued to remain elongated at 113 days in FY23

PPL's fund-based working capital limits remained almost unutilized during trailing 12 months ended November, 2023. PPL held Rs. 35.22 crores of cash and liquid investments as on November 30, 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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](#)

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 November 30, 2023, 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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	255.38	202.25	50.72
PBILDT	32.28	1.56	-5.45
PAT	23.00	0.30	-5.66
Overall gearing (times)	0.01	0.01	0.00
Interest coverage (times)	35.17	2.74	-ve

A: Audited UA: Unaudited; NA: Not available; -ve: Negative; 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: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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+; Negative
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 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-Long Term	LT	26.75	CARE BBB+; Negative	-	1)CARE BBB+; Stable (08-Mar-23)	1)CARE BBB+; Stable (07-Feb-22)	1)CARE BBB+; Negative (23-Dec-20)
2	Non-fund-based - ST-BG/LC	ST	6.44	CARE A2	-	1)CARE A2 (08-Mar-23)	1)CARE A2 (07-Feb-22)	1)CARE A2 (23-Dec-20)

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

Annexure -4: Complexity level of various instruments rated

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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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