PBM Polytex Limited

January 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	15.75 (Reduced from 26.75)	CARE BBB; Stable	Downgraded from CARE BBB+; Negative
Short-term bank facilities	6.44	CARE A3+	Downgraded from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of PBM Polytex Limited (PPL) is considering moderation in PPL's scale of operations and operating losses reported in FY24 (FY refers to the period from April 01 to March 31) and H1FY25.

However, ratings continue to derive strength from PPL's long track record of operations in manufacturing and processing cotton yarn, vast experience of its promoters in the cyclical cotton yarn industry and its established marketing network and clientele. Ratings further derive strength from PPL's comfortable leverage, prudent working capital management and its adequate liquidity backed by unencumbered investments.

However, ratings remain constrained considering PPL's weak debt coverage indicators, considering operating losses, profitability susceptible to volatile cotton prices and foreign exchange fluctuation risk and its presence in a competitive and cyclical cotton yarn industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Significant growth in its total operating income (TOI) and achievement of operating profitability while maintaining overall gearing ratio less than 0.5x.
- Sustained improvement in its return on capital employed (ROCE) to 15%.

Negative Factors

- Significant moderation in cash and liquid investments impacting the company's liquidity.
- Significant decline in scale of operations below ₹150 crore with higher-than-envisaged operating losses.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that the entity is likely to sustain its financial risk profile in the medium term, considering its comfortable leverage and healthy liquidity available with the company and no major debt funded capex plan in near future.

Detailed description of key rating drivers

Key strengths

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

PPL has a long-standing track record of over 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 several external factors affecting the operational and financial performance of entities in the sector; despite this, PPL's promoters have managed the company's operations efficiently over four decades. PPL has been able to efficiently control two major operational costs in cotton yarn industry - power and fuel cost and wages and salaries cost. The company's power and fuel cost remained relatively stable at an average of 10-15% of its TOI in the last five years ended FY24.

PPL has an established domestic marketing network and good presence in export market. However, due to sluggish export demand in the overall textile segment, PPL was able to generate ~25% TOI from exports in FY24 against 28% in FY23 and 43% in FY22.

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

Established clientele with prudent working capital management
PPL has long standing relationship with most customers with majority being associated with the company for over 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.
Owing to the conservative approach of its management, PPL invests most unencumbered surplus funds in – liquid/short-term mutual funds (₹31.08 crore as on November 30, 2024). With a significant amount of surplus funds available, the utilisation of its fund based working capital debt remained negligible in the last 12 months ended November 2024.

Comfortable leverage despite moderation in debt coverage indicators
PPL continued to operate at a comfortable leverage as indicated by its overall gearing of 0.02x as on March 31, 2024, owing to absence of long-term debt and negligible utilisation of its working capital limit. Going forward, with no major capex planned overall gearing is expected to remain below 0.50x. However, with operating losses in FY24 and H1FY25, PPL's debt coverage indicators moderated significantly.

Key Weaknesses
Moderation in scale of operation with operating losses
PPL's scale of operation moderated in FY24 marked by TOI of ₹191.60 crore compared to ₹202.25 crore in FY23. While there was volume growth of 8% year-over-year (y-o-y) in FY24, sales realisation declined impacting the company's scale of operations. The performance remained subdued in H1FY25 as well with TOI of ₹83.81 crore due to sluggish demand in export market.
PPL reported operating loss in FY24 and H1FY25 due to moderation in cotton yarn prices resulting in lower realisations and inventory losses. However, with the expected stabilisation of cotton prices, coupled with improving demand scenario, the scale and profitability are expected to gradually recover.

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 and depend upon factors such as area under production, yield for the year, international demand-supply scenario, inventory carry forward from previous year, and setting of export quota and minimum support price (MSP) by the government.
PPL generated ~25% to 45% 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 ~95 - 100% for its export orders (based on letter of credit received for exports). Thus, in FY24, PPL reported the negligible net foreign exchange fluctuation loss of ₹0.03 crore (FY23: ₹0.04 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 compared to larger integrated textile companies who have better efficiencies and pricing power considering their scale of operations. Due to the fragmented 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 considering no term debt repayment obligations, negligible utilisation of its working capital limits, healthy cash and bank balance and efficient management of its working capital. PPL offers a credit period of ~20-30 days to its customers. 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 ~85-130 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 108 days in FY24 (FY23: 113 days).
PPL's fund-based working capital limits remained almost unutilised in trailing 12 months ended November 2024. PPL held ₹31.23 crore of cash and liquid investments as on November 30, 2024.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Cotton Textile]
[Short Term Instruments]

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

Incorporated in 1919, PPL (CIN: L17110GJ1919PLC000495) was earlier known as The Petlad Bulakhidas Mills Company Limited. The current management (Patodia family) took over the company in 1978 and since then has gradually expanded and modernised its facilities for manufacturing and processing cotton yarn. As on November 30, 2024, 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 at Petlad, Anand, Gujarat and at Borgaon in Madhya Pradesh. PPL has also set up windmills in Gujarat with aggregate capacity of 3 MW.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	202.25	191.60	83.81
PBILDT	1.56	-8.54	-2.59
PAT	0.30	-6.30	-2.28
Overall gearing (times)	0.00	0.02	0.01
Interest coverage (times)	2.74	-ve	-ve

A: Audited UA: Unaudited; -ve: Negative; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Annexure-2

Covenants of rated instruments / facility: Annexure-3

Complexity level of 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		-	-	-	15.75	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	6.44	CARE A3+

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 2024-2025	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
1	Fund-based-Long Term	LT	15.75	CARE BBB; Stable	-	1)CARE BBB+; Negative (04-Jan-24)	1)CARE BBB+; Stable (08-Mar-23)	1)CARE BBB+; Stable (07-Feb-22)
2	Non-fund-based - ST-BG/LC	ST	6.44	CARE A3+	-	1)CARE A2 (04-Jan-24)	1)CARE A2 (08-Mar-23)	1)CARE A2 (07-Feb-22)

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

Annexure -4: Complexity level of 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 lender-wise details of bank facilities please click here

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