PBM Polytex Limited

March 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	32.27 (reduced from Rs.37.73 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Reaffirmed
Long-term/Short-term Bank Facilities	10.94	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**43.21 (Rupees Forty Three Crore and Twenty One Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of PBM Polytex Limited (PPL) continue to derive strength primarily from its more than nine decade long track record of operations in manufacturing & processing of cotton yarn; vast experience of its promoters in the cyclical cotton yarn industry and comfortable liquidity position backed by unencumbered investments. The ratings further derive strength from PPL's established marketing network and clientele, comfortable leverage and debt coverage indicators and efficient working capital management practices.

The ratings, however, continue to remain constrained on account of susceptibility of PPL's profitability to volatility in raw material and cotton yarn prices, its moderate scale of operations, presence in a highly competitive cotton yarn segment and regulatory risk associated with the industry.

PBM's ability to increase its scale of operations and improve its profitability through better product mix, effectively manage volatility in raw material prices and increase the level of integration in the cotton textile value chain while sustaining its comfortable capital structure and healthy liquidity are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long and established operational track record in cotton yarn industry: 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 cotton yarn manufacturing business. Over the years, PPL has established its network in the domestic market and also has a good presence in export markets. On an average, for the last three years, the company generated around 30-40% of its total operating income (TOI) from exports.

Efficient working capital management practices and healthy liquidity: 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 credit policy for domestic market along with policy of selling only against letter of credit/advance payment for export market ensures timely collections and comfortable liquidity throughout the year. Furthermore, owing to the conservative policies of its management, PPL invests most of its unencumbered surplus funds in liquid / short-term mutual funds (outstanding of Rs.30.17 crore as on December 31, 2018). Moreover, owing to significant amount of surplus funds available, the utilization of working capital debt for cotton procurement remains negligible, leading to healthy liquidity for the company.

Highly comfortable leverage and debt protection indicators: During FY18, PPL reported a moderate growth of around 10% y-o-y in its total operating income (TOI), driven by increase in sales volume supported by its established relationships with customers. During 9MFY19 too, PPL reported around 7% y-o-y growth in its TOI, with increase in sales realizations. During FY18, PPL's PBILDT margin declined to 4.74% (P.Y. – 7.14%) while it improved to 7.20% during 9MFY19, reflecting the volatility in the cotton yarn industry, both for sales realizations as well as procurement costs. Despite this volatility, PPL continued to operate at highly comfortable leverage as indicated by its overall gearing of 0.09x as on March 31, 2018 (0.18x as on March 31, 2017) owing to its negligible outstanding long-term debt as on that date along with low utilization of its working capital limits. PPL's debt coverage indicators also highly remained comfortable during FY18 as well as during 9MFY19.

Comfortable liquidity: PPL's liquidity continued to remain comfortable during FY18 and 9MFY19 on account of efficient management of its working capital requirements. Further, PPL's relationship with credible customers and strict credit policy for domestic market along with policy of selling only against letter of credit/advance payment for export market

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

ensures timely collections and comfortable liquidity throughout the year. PPL's fund-based working capital limits remained almost unutilized for the trailing 12 months ended December 2018. PPL held Rs.5.53 crore of liquid investments as on March 31, 2018 which further increased to Rs.30.17 crore as on December 31, 2018 with generation of profits and reduction in inventory levels during 9MFY19. Additionally, the company has negligible repayment requirements during FY19 – FY20 (Rs.1.18-2.46 crore p.a.) which are expected to be met through internal accruals.

Key Rating Weaknesses

Risk associated with volatility in raw material prices and foreign exchange rates: The 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 the previous year and 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. Collectively, these factors along with intense competition in the industry contribute to low bargaining power of yarn manufacturers and volatility in profitability. Moreover, PPL generates around 30-40% 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.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non- Financial Sector
Rating Methodology – Cotton Yarn

About the Company

Incorporated in 1919, PBM Polytex Ltd. (PPL) 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 March 31, 2018, PPL had an installed capacity of 57,600 spindles and 840 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 and as per power purchase agreement it sells the entire power to Gujarat Urja Vikas Nigam Limited *(GUVNL; rated CARE AA-; Stable / CARE A1+)*. In February 2019, PBM announced buy-back of its equity shares of up to Rs.11.00 crore, to be funded through internal accruals. The buy-back is expected to be completed by May 2019.

Brief Financials of PPL are tabulated below:

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	180.52	198.10
PBILDT	12.89	9.53
PAT	9.84	7.14
Overall gearing (times)	0.18	0.09
Interest coverage (times)	6.25	10.16

A – Audited;

Further, as per the provisional results for 9MFY19, PPL reported a total operating income of Rs.161.40 crore and PAT of Rs.5.00 crore, compared with a total operating income of Rs.150.75 crore and PAT of Rs.2.68 crore in 9MFY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	December 2019	1.52	CARE A-; Stable
Fund-based-Long Term	-	-	-	30.75	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	10.94	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	1.52	CARE A-; Stable	-	1) CARE A-; Stable (27-Mar-18)	1) CARE A-; Stable (29-Dec-16)	1) CARE A- (06-Nov-15)
2.	Fund-based-Long Term	LT	30.75	CARE A-; Stable	-	1) CARE A-; Stable (27-Mar-18)	1) CARE A-; Stable (29-Dec-16)	1) CARE A- (06-Nov-15)
3.	Non-fund-based - ST-BG/LC	ST	10.94	CARE A2+	-	1) CARE A2+ (27-Mar-18)	1) CARE A2+ (29-Dec-16)	1) CARE A2+ (06-Nov-15)

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