PBM Polytex Limited

November 22, 2019

Ratings

Facilities / Instruments	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	30.75 (reduced from Rs.32.27 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Short-term Bank Facilities	10.94	**CARE A2 (A Two)**	**Revised from CARE A2+ (A Two Plus)**
Total Facilities	**41.69 (Rupees Forty One Crore and Sixty Nine Lakh only)**		

Details of instruments/facilities in Annexure-1

Note: CARE has also withdrawn the rating assigned to the term loan facility of PPL as the said loan has been completely paid off and there is no amount outstanding against the same.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of PBM Polytex Limited (PPL) takes into account the continuous moderation in its profitability margins during past few years ended FY19 (refers to period April 1 to March 31) on the back of increasing competition and volatile cotton prices. The profitability margin has further contracted sharply during H1FY20 due to sluggish demand for cotton yarn in export and domestic market resulting into decline in sales volumes apart from adverse movement of cotton prices which the company was unable to pass on to its customers in competitive cotton yarn industry which is presently encountering an over-supply scenario. The revision in the ratings also take into account current challenging cotton yarn industry scenario which may further put pressure on sales volume and profitability in near term.

The ratings of PPL continue to derive strength from PPL's long and efficient track record of operations in manufacturing & processing of cotton yarn, vast experience of its promoters in the cyclical cotton yarn industry and PPL's 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, 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 with decline in total operating income during H1FY20 over H1FY19 and regulatory risk associated with the cotton yarn industry. The ratings also remain constrained due to its low ROCE (%) on account of subdued profitability.

Key Rating sensitivities

Positive Factors

- Compounded annual growth rate of more than 10% in total operating income along with sustained improvement in PBILDT margin to a range of 13%-15% while maintaining its comfortable leverage and debt coverage indicators
- Sustained improvement in its ROCE to 15%

Negative Factors

- Moderation in liquidity of the company marked by unencumbered liquid investment falling below Rs.20 crore along with deterioration in its leverage

Detailed description of the key rating drivers

Key Rating 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) manufacturing 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, company 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 employee cost of the company grew at compounded annual growth rate (CAGR) of only 3.6% in last five year ended FY19 which is lower than average CPI inflation rate in India. Further, the power and fuel cost of the company remained relatively stable at an average of 13% of its total operating income in last couple of years ended FY19 which is also marginally better than the industry average.

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

Over the years, PPL has established its network in the domestic market apart from having good presence in export markets. On an average, for the last three years ended FY19, the company generated around 30-40% of its total operating income (TOI) from exports.

Efficient working capital management practices: 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 good 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 adequate liquidity throughout the year. Further, 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.33.44 crore as on September 30, 2019). Moreover, owing to significant amount of surplus funds available, the utilization of its working capital debt for cotton procurement remains negligible.

Comfortable leverage and debt coverage indicators: PPL continued to operate at a comfortable leverage as indicated by its overall gearing of 0.19x as on March 31, 2019 owing to its negligible outstanding long-term debt as on that date along with lower utilization of its working capital limits. PPL's debt coverage indicators like TD/GCA continued to remain comfortable at 2.90 years in FY19. Despite relatively low operating profitability, PBILDT interest coverage continued to remain comfortable at 13 times during FY19 largely due to absence of major interest cost. During H1FY20, PPL has bought back equity shares worth of Rs.10.00 crore resulting into reduction in networth base to that extent. However, despite that the capital structure of the company continued to remain comfortable as on September 30, 2019. In challenging market scenario, PPL's liquidity position remained better as compared to many industry players because of the conservative stance of its management on use of external debt for driving business growth.

Liquidity: Adequate
PPL's liquidity continued to remain comfortable on account of efficient management of its working capital requirements. Over the last couple of years ended FY19, cash flow from operation continued to remain positive which stood at Rs.18.69 crore in FY19. The liquidity indicators i.e. current ratio and quick ratio stood healthy at 2.82 times and 1.73 times respectively in end-FY19. Further, PPL held Rs.34.77 crore of cash & liquid investments as on September 30, 2019 which company plans to utilize towards the procurement of raw materials during the cotton season i.e. October to March and its reliance on external debt remain minimal. The fund based working capital limits of the company remained unutilized in the last 12 months ended September 2019. Additionally, the company does not have any long term debt outstanding as on September 30, 2019 hence no scheduled repayments obligation which also support the liquidity to certain extent.

Key Rating Weaknesses
Continuous moderation in profitability margin over the past few years which further declined sharply in H1FY20: There has been continuous moderation in PBILDT margin of the company from 15.76% during FY14 to 6.07% during FY19 which further declined significantly by 555 bps and stood thin at 1.65% during H1FY20, as against 7.20% during H1FY19, primarily on account of increase in raw material costs (10% increase in cotton price in H1FY20 over H1FY19) and contraction in average sales realization of cotton yarn (4% de-growth in cotton yarn price in H1FY20 over H1FY19). Over-supply scenario due to fall in exports also led to decline in bargaining power of Indian cotton yarn manufacturers, owing to which PPL was not able to pass on the increased costs to its customers. Further, due to sharp decline in PBILDT margin, the company has reported loss on PBT level during H1FY20. Moreover, due to continuous contraction in the profitability margin, the return indicators marked by ROCE and RONW also declined and remained low at 5.84% and 4.43% respectively during FY19 as against 23.50% and 23.70% respectively in FY14.

Modest scale of operations: Total operating income of the company grew by 7% on Y-o-Y basis and stood at a modest level of Rs.212 crore during FY19 backed by growth in export sales apart from improvement in average sales realization of the company. However, during H1FY20, total operating income of the company registered a sharp y-o-y decline by 21% to Rs.88 crore during H1FY20. The primary reason for de-growth was decline in the sales volume (18% decline on y-o-y basis) of its product i.e. cotton yarn on account of sluggish demand for cotton yarn in domestic as well as in export markets which coincided with the higher prices of cotton.
Moreover, the production from its Petlad manufacturing unit is currently affected due to some shortage of workers while company has strategically decided to stop the production for one day in a week at its Bargaon Plant due to prevailing slowdown in the textile market. Considering the production loss as well as challenging cotton yarn market, the financial performance of the company is expected to remain subdued in near term.

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, vagaries of the monsoon, 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.

Industry Outlook: The domestic cotton yarn production has remained subdued in FY17 and FY18 owing to low domestic downstream demand and reduced orders from the export market. Export demand has further moderated in the current financial year till September 30, 2019. After witnessing a growth of 3% in Q4FY19, the exports declined by a significant 33% in Q1FY20. Further, domestic demand for cotton yarn, too declined by ~1.4% in FY19 on account of low downstream demand in domestic market. Higher domestic cotton prices compared to global cotton yarn prices during H1FY20 have put Indian exporters at a disadvantage compared to their global competitors. Indian export of cotton yarn to China has shown de-growth of more than 35% during H1FY20. With India exporting nearly 30%-35% of its cotton yarn production, any decline in the export demand has a significant bearing on the realisation and profitability margins of the local spinners due to over-supply. However, moderation in the local cotton prices in Q2 and expectation of a better cotton crop in the Cotton Season 2019-20, may provide some solace to the domestic cotton spinners in the near future.

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 Textile Manufacturing
Policy on Withdrawal of Ratings

About the Company

Incorporated in 1919, 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, 2019, 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.

Brief Financials (Rs. crore)	FY18 (Aud.)	FY19 (Aud.)
Total operating income	197.94	211.95
PBILDT	9.38	12.88
PAT	7.14	4.57
Overall gearing ratio (times)	0.09	0.19
PBILDT Interest coverage ratio (times)	11.99	13.00

PPL reported a total operating income of Rs.88.09 crore and PAT of Rs.0.42 crore in H1FY20 (Provisional), compared with a total operating income of Rs.115.58 crore and PAT of Rs.3.70 crore in H1FY19 (Provisional).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	-	Withdrawn
Fund-based - Long Term	-	-	-	30.75	CARE BBB+; 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	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in

					2019-2020	2018-2019	2017-2018	2016-2017
1.	Term Loan-Long Term	LT	-	Withdrawn	-	CARE A-; Stable (13-Mar-19)	1) CARE A-; Stable (27-Mar-18)	1) CARE A-; Stable (29-Dec-16)
2.	Fund-based-Long Term	LT	30.75	CARE BBB+; Stable	-	CARE A-; Stable (13-Mar-19)	1) CARE A-; Stable (27-Mar-18)	1) CARE A-; Stable (29-Dec-16)
3.	Non-fund-based - ST-BG/LC	ST	10.94	CARE A2	-	CARE A2+ (13-Mar-19)	1) CARE A2+ (27-Mar-18)	1) CARE A2+ (29-Dec-16)

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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