PBM Polytex Limited

December 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	28.75 (reduced from Rs.30.75 crore)	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Reaffirmed; Outlook revised from Stable**
Short-term Bank Facilities	8.44 (reduced from Rs.10.94 crore)	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**37.19 (Rupees Thirty Seven Crore and Nineteen Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & 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 and moderate debt coverage indicators, efficient working capital management practices and its adequate liquidity backed by unencumbered investments. CARE also notes that the company has not availed any moratorium as a Covid-19 relief measure under the guidelines of Reserve Bank of India (RBI) for the repayment obligation on its bank facilities which also underlines its adequate liquidity.

The ratings, however, remain constrained on account of PPL's moderate scale of operations with subdued operating profitability during FY20 and H1FY21 (FY refers to period April 01 to March 31), its low ROCE, susceptibility of its low profitability to volatility in cotton and cotton yarn prices and its presence in competitive and cyclical cotton yarn industry with regulatory risk associated with it.

Outlook: Negative

The 'Negative' outlook on the long-term rating of PPL reflects CARE's expectation of lower than previously envisaged operating and financial performance in the medium-term due to adverse impact on demand for textile products owing to outbreak of Covid-19 pandemic. Consequently, PPL's profitability, cash accruals and debt coverage indicators are expected to remain lower than previously envisaged. This may be partially mitigated by adequate liquidity cushion available in the form of unencumbered cash and liquid investment. The outlook may be revised to 'Stable' in case of faster than anticipated recovery in demand resulting in sustained and significant improvement in PPL's operational and financial performance.

Rating Sensitivities

Positive Factors

- Significant growth in its total operating income along with sustained improvement in PBILDT margin to a range of 13%-15% while maintaining overall gearing ratio less than 0.5 times
- Sustained improvement in its ROCE to 15%

Negative Factors

- Significant moderation in liquidity of the company along with deterioration in its leverage
- Significantly more than envisaged deterioration in its profitability during H2FY21; and continued moderation in its profitability even up to Q2FY22

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 & salaries cost. The employee cost of the company grew at compounded annual growth rate (CAGR) of

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

only 1% in last three year ended FY20 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 13.48% of its total operating income in last three years ended FY20 which is also marginally better than the industry average.
Over the years, PPL has established its network in the domestic market apart from having good presence in export markets. On an average (for last three years ended FY20) PPL has generated around 30-40% of its total operating income 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 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 and in fixed deposits with banks (outstanding of Rs.28.15 crore as on November 26, 2020). Moreover, owing to significant amount of surplus funds available, the utilization of its fund based working capital debt for cotton procurement remains negligible.

Comfortable leverage and moderate debt coverage indicators: PPL has bought back equity shares worth Rs.10 crore and distributed dividend of Rs.0.50 crore in FY20. Despite such distribution of profits, PPL continued to operate at a comfortable leverage as indicated by its overall gearing ratio of 0.02x as on March 31, 2020 owing to absence of any long-term debt along with very low utilization of its working capital limits. Moreover, company continues to maintain debt free status on net debt basis i.e. net of unencumbered cash and short-term investments on March 31, 2020. PPL's Total Debt/ Gross Cash Accruals (GCA) remained moderate at 1.50 years in FY20. Despite significant decline in its operating profitability, PBILDT interest coverage remained adequate at 4 times during FY20 largely due to absence of major interest cost.

Liquidity: Adequate
PPL's liquidity continued to remain adequate on account of efficient management of its working capital requirements. Moreover, the liquidity of the company was also supported by positive cash flow from operation of Rs.6.79 crore in FY20. The liquidity indicators i.e. current ratio and quick ratio stood healthy at 4.50 times and 1.50 times respectively as on March 31, 2020. Further, PPL held Rs.30.86 crore of unencumbered cash & liquid investments as on September 30, 2020 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 is envisaged to remain minimal. The fund based working capital limits of the company remained largely unutilized in the last 12 months ended September 2020. Additionally, the company does not have any long term debt outstanding as on September 30, 2020 hence there are no scheduled debt repayments obligation which also supports its liquidity to certain extent. CARE also notes that the company has not availed any moratorium as a Covid-19 relief measure under the guidelines of Reserve Bank of India (RBI) for the repayment obligation on its bank facilities which also underlines its adequate liquidity.

Key Rating Weaknesses
Modest scale of operation with low profitability: PPL's total operating income declined by 20% on y-o-y basis and stood modest at Rs.171 crore during FY20 as compared to Rs.212 crore during FY19 on account of 20% decline in sales volume on y-o-y basis apart from 4% decline in average sales realization of cotton yarn. The production of its Petlad unit (which contributes ~60% of its sales) was affected in FY20 due to shortage of workers leading to loss of production coupled with sluggish demand of cotton yarn from export market. The sales of the company were also affected in the latter half of March 2020 due to national lockdown imposed by Government of India to contain Covid-19. Further, the PBILDT margin of the company declined significantly by 452 bps and stood low at 1.55% during FY20 as compared to 6.07% during FY19 primarily due to volatile cotton prices and inability of PPL to completely pass on the increase in cost of production to customers in light of stiff competition and subdued demand. Furthermore, due to sharp decline in PBILDT, the company reported a net loss during FY20. Moreover, the return indicators marked by ROCE and RONW continue to remain very low in FY20 due to its low profitability.

Adverse impact of Covid-19 pandemic on textile sector: The closure of retail stores and malls on account of lockdown situation across the nation has impacted the demand for textile industry. On the international front, spread of Covid-19 in top export destinations such as Europe and US (together accounting for about 60% of the total apparel exports) has resulted in closure of retail stores and malls there. Even after the lockdown has lifted, consumer demand recovery is gradual and delayed given the relatively discretionary nature of the apparel products in the backdrop of economic slowdown. This has also impacted the demand of other textile products including cotton yarn and fabric. Though some revival in demand has been witnessed post Q1FY21 which also resulted in improvement in cotton and yarn prices, along with improvement in spread, demand in near term is expected to remain moderate. Along with revival in domestic demand with resumption of mills, export demand, mainly from markets such as US and UK, has also witnessed some

revival following the US-China trade tensions. However, sustainability of this revival in demand, both in domestic and export markets shall remain crucial for the prospects of the textile sector.
The operational activities of PPL were also affected during the period of lockdown in March-April 2020 which gradually picked up post relaxation of lockdown norms by state and central governments. Total operating income of the company reported de-growth of 44% on y-o-y basis and stood at Rs.50 crore during H1FY21 as compared to Rs.88 crore during H1FY20. The company reported operating (PBILDT) loss of Rs.1.89 crore and net loss of Rs.3.81 crore during H1FY21. The profitability and cash accruals during FY21 are expected to remain lower than FY20.

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. However, the company follows the prudence practice of hedging its entire foreign exchange exposure through forward contract.

Presence in competitive and cyclical cotton spinning industry: India has the world's second largest spinning capacity, commanding a major share of the global yarn market. However, 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. Furthermore, textile is a cyclical industry and closely follows the macroeconomic business cycles. The prices of raw materials and finished goods are also determined by global demand-supply scenario, hence any shift in macroeconomic environment globally also impacts the domestic textile industry.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Rating Methodology for Cotton Textile Manufacturing
Financial ratios - Non- Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

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 September 30, 2020, 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.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	211.95	171.10
PBILDT	12.88	2.66
PAT	4.57	(0.27)
Overall gearing (times)	0.19	0.02
Interest coverage (times)	13.00	4.07

A – Audited

PPL reported a total operating income of Rs.49.70 crore and net loss of Rs.3.81 crore in H1FY21 (Provisional), compared with a total operating income of Rs.88.09 crore and net profit of Rs.0.42 crore in H1FY20 (Provisional).
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure-3

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
Fund-based-Long Term	-	-	-	28.75	CARE BBB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	8.44	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (22-Nov-19)	1)CARE A-; Stable (13-Mar-19)	1)CARE A-; Stable (27-Mar-18)
2.	Fund-based-Long Term	LT	28.75	CARE BBB+; Negative	-	1)CARE BBB+; Stable (22-Nov-19)	1)CARE A-; Stable (13-Mar-19)	1)CARE A-; Stable (27-Mar-18)
3.	Non-fund-based - ST-BG/LC	ST	8.44	CARE A2	-	1)CARE A2 (22-Nov-19)	1)CARE A2+ (13-Mar-19)	1)CARE A2+ (27-Mar-18)

Annexure – 3 Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based – ST - BG/LC	Simple

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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