Parmeshwari Silk Mills Limited

February 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Ratings Action
Long-term Bank Facilities	36.04	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	**Assigned**
Total	**36.04 (Rs. Thirty Six crore and Four lakh only)**		

Details of facilities in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Parmeshwari Silk Mills Limited (PSML) is constrained by its working capital intensive nature of operations and weak debt coverage indicators. The rating is further constrained by the susceptibility of profitability margins to raw material price fluctuations, competitive nature of the industry and risk associated with timely completion of proposed debt-funded capital expenditure. The rating, however, derives strength from the long track record of operations with established marketing network, experienced & resourceful promoters, growing scale of operations and favourable location of operations.

Going forward, the ability of the company to profitably scale-up its operations while improving the overall solvency position and managing the working capital requirements efficiently, will remain the key rating sensitivities. Completion of the proposed debt-funded capex in a timely manner and within the cost estimates will also be critical from the credit perspective.

Detailed Description of key rating drivers

PSML has been engaged in selling of shirting fabric & ladies dress material and is being managed by Mr. Jatinder Pal Singh (Chairman/ MD) who has an experience of more than two and a half decades in the textile industry through his association with PSML.

With increased volumes sales to its existing as-well-as new customers, the operating income of the company has increased at a steady CAGR (Compound annual growth rate) of ~8% in FY14-16 period to Rs.83.17 crore in FY16. The PBILDT margins of the company have remained at a moderate level of 9.67% in FY16. The same have improved gradually from 8.25% in FY14 on the back of lower raw material expenses. The company had a moderate capital structure marked by long-term debt-to-equity ratio of 0.32x and overall gearing of 1.49x, as on March 31, 2016. However, on account of high reliance on working capital borrowings and low profitability generated in absolute value terms, the debt coverage indicators of the company remained weak marked by total debt to GCA ratio of 12.33x, as on March 31, 2016 and interest coverage ratio of 1.58x in FY16.

The company plans to undertake a capex of Rs.10.05 crore pertaining to installation of automatic printing machines. The same is proposed to be funded through a term loan of Rs.7.50 crore (fully sanctioned) and remaining through the infusion of additional unsecured loans from the promoters. The project is expected to be completely operational in Q4FY17. Hence, completion of the proposed debt-funded capex in a timely manner and within the cost estimates will remains a key rating sensitivity.

The operations of the company are working capital intensive in nature as reflected by average operating cycle of 162 days as on March 31, 2016. The average cash credit limit utilization of the company remained around 100% for the last 12 months ended September 2016.

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

The raw material cost has always been a major contributor to the total operating cost in past three years. The entities in the textile industry are susceptible to fluctuations in raw material prices.

The company operates in a highly fragmented textile manufacturing industry wherein the presence of large number of entities in the unorganized sector and established players in the organized sector limits the bargaining power with customers. Further, the company is also exposed to competitive pressures from domestic players as-well-as from players situated in China and Bangladesh.

Ludhiana is a well-established hub of manufacturing of textiles. The company benefits from the location advantage in terms of easy accessibility to large customer base located in Ludhiana. Furthermore, various raw materials required in manufacturing of textiles are readily available owing to established supplier base in the same location as well.

The company is engaged in the selling of shirting fabrics and ladies dress material under the brand name of 'Ramtex' through its network of 38 dealers located in Chandigarh, Delhi, Haryana and Punjab, which covers more than 200 retailer across north region of India. The brand is well accepted in Delhi, Haryana, Punjab, and Himachal Pradesh.

Analytical Approach – Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for Manufacturing Companies]
[CARE's policy on default recognition]

About the company
Based in Ludhiana (Punjab), Parmeshwari Silk Mills Limited (PSML) was incorporated in the year 1993. The company is a family owned business promoted by Mr. Jatinder Pal Singh and is engaged in the manufacturing and selling of shirting fabric and ladies dress material under the brand name 'Ramtex'. The company has its manufacturing facility for weaving, embroidery and digital printing located at Ludhiana (Punjab) with an installed capacity of has 81 looms, 40 embroidery machines and 5 digital printing machines, as on March 31, 2016. PSML sells the products manufactured through its network of 38 dealers located in Chandigarh, Delhi, Haryana and Punjab.
In FY16, the company reported a total operating income of Rs.83.17 crore with PAT of Rs.0.94 crore as against total operating income of Rs.81.54 crore with PAT of Rs.0.26 crore in FY15. In H1FY17 (Prov.), the company has achieved total operating income of Rs.37.82 crore.

Status of non-cooperation with previous CRA: NA

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

For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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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
Fund Based - LT-Cash Credit	-	-	-	24.75	CARE BB-; Stable
Fund Based - LT-Term Loan	-	-	April-2019	11.29	CARE BB-; Stable

Annexure-2: Rating History for 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Cash Credit	LT	24.75	CARE BB-; Stable	-	-	-	-
2.	Fund Based - LT-Term Loan	LT	11.29	CARE BB-; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691