Parmeshwari Silk Mills Limited

August 16, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	47.49 (enhanced from 36.04)	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	Revised from CARE B; Stable; ISSUER NOT COOPERATING (Single B; Outlook: Stable; ISSUER NOT COOPERATING)
Short-term Bank Facilities	0.33	**CARE A4 (A Four)**	Assigned
Total Facilities	**47.82 (Rs. Forty seven crore eighty two lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Parmeshwari Silk Mills Limited (PSML) continue to be constrained by the weak capital structure and working capital intensive nature of operations. The ratings are further constrained by the susceptibility of profitability margins to raw material price fluctuations and competitive & fragmented nature of the industry.

The ratings, however, derive strength from the experienced promoters, favorable location of operations, established marketing network, growing scale of operations and comfortable PBILDT margin.

Going forward, the ability of the company to profitably scale-up its operations and efficiently manage its working capital requirements while improving the overall solvency position will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak capital structure

Though the capital structure of the company improved on a year-on-year basis, as on March 31, 2018, it continued to remain weak marked by long-term debt to equity ratio of 1.83x (2.18x as on March 31, 2017) and overall gearing of 3.89x, as on March 31, 2018 (4.40x as on March 31, 2017). The total debt to GCA ratio also remained at a weak level of 14.22x, as on March 31, 2018 (19.90x as on March 31, 2017) mainly on account of high reliance of the business on the working capital borrowings. The interest coverage ratio remained at a moderate level of 1.96x in FY18 (1.59x in FY17).

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature as reflected by an average operating cycle of 142 days, as on March 31, 2018. PSML is required to maintain adequate inventory mainly in the form of raw material to ensure smooth execution of production as well as maintain stock of finished products in order to meet the immediate requirements of customers which resulted in average inventory period of 104 days, as on March 31, 2018. Furthermore, the company has to offer reasonable credit period of around three-four months to its customers owing to its existence in a highly fragmented and competitive textile industry. PSML received an average credit period of around two-three month from its suppliers. The average cash credit limit utilization of the company remained around 95% for the last 12 months ended June 2018. The company also avails adhoc limit and temporary over draft limits from time to time to meet its working capital requirements.

Susceptibility to raw material price fluctuations

The raw material cost has always been a major contributor to the total operating cost in past three years. The entities in textile industry are susceptible to fluctuations in raw material prices. Cotton (one of the main raw material) being an agricultural product, its demand supply situation depends on various natural conditions like monsoons, drought and floods. It being a product of international importance, its price is very volatile depending on the demand-supply situation in the global markets. The price of other raw materials, i.e. polyester & synthetic yarn is linked to that of crude oil. The general volatility in the crude oil prices also has an impact on the price of these products.

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

Fragmented and competitive nature of the industry

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 outside India, especially in China and Bangladesh.

Key Rating Strengths

Experienced promoters

PSML has been engaged in selling of shirting fabric & ladies dress material and is being managed by Mr. Jatinder Pal Singh (Chairman/ MD) and Ms. Kuljeet Kaur (wife of Mr. Jatinder Pal Singh) who have an experience of more than two and a half decades and two decades, respectively, in the textile industry through their association with PSML. The other directors of the company include Mr. Deshbir Singh and Mr. Simranjit Singh, who have an experience of more than a decade and half a decade, respectively, in the textile industry. The directors are assisted by a team of professional who are highly experienced in their respective domains.

Favorable location of operations with an established marketing network

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. 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.

Growing scale of operations and comfortable PBILDT margin

The income of the company has increased at a CAGR of ~13% in FY15-18 period with the total operating income increasing from Rs.81.54 crore in FY15 to Rs.118 crore in FY18, mainly due to higher orders received from existing as well as new customers. In FY18, the income has increased from Rs.93.73 crore in FY17 to Rs.118 crore. The PBILDT margin has improved from 8.25% in FY17 to 9.20% in FY18 mainly due to decrease in the job work expenses during the year. Certain activities (including designing, printing, embroidery etc.) which were earlier outsourced were carried out in-house, post installation of the required machineries, which led to improvement in the margins during the year.

In Q1FY19 (UA), the company has achieved total operating income of Rs.34.10 crore and PAT of Rs.0.92 crore as against total operating income of Rs.21.19 crore and PAT of Rs.0.33 crore in Q1FY18 (UA).

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

About the Company

Parmeshwari Silk Mills Limited (PSML), based in Ludhiana (Punjab), was incorporated in the year 1993. PSML is a family owned business promoted by Mr. Jatinder Pal Singh. The company is engaged in 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) and has 57 rapier & sulzer weaving machines (weaving capacity of 68 lakh meters per annum), 17 embroidery machines, 2 digital printing machines and 1 flatbed screen printing machines, as on March 31, 2018. PSML sells shirting fabric and ladies dress material under the brand name of '*Ramtex*' through its network of 38 dealers located in Chandigarh, Delhi, Haryana and Punjab.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	93.73	118.00
PBILDT	7.73	10.85
PAT	1.09	2.24
Overall gearing (times)	4.40	3.89
Interest coverage (times)	1.59	1.96

A: Audited

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
Fund-based - LT-Cash Credit	-	-	-	31.00	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	June-2027	16.49	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.33	CARE A4

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.	Fund-based - LT-Cash Credit	LT	31.00	CARE BB-; Stable	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (13-Feb-18)	1)CARE BB-; Stable (09-Feb-17)	-
2.	Fund-based - LT-Term Loan	LT	16.49	CARE BB-; Stable	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (13-Feb-18)	1)CARE BB-; Stable (09-Feb-17)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.33	CARE A4	-	-	-	-

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