Parmeshwari Silk Mills Limited

September 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	15.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Total Facilities	**15.00 (Rs. Fifteen crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Parmeshwari Silk Mills Limited (PSML) is constrained by the modest scale of operations and working capital intensive nature of operations. The rating is further constrained by the customer concentration risk, susceptibility of margins to raw material price fluctuations coupled with competitive and fluctuating nature of the industry.

The rating, however, derives strength from the experienced promoters, favorable location of operations, growing scale, improving profitability margins with satisfactory solvency position.

Going forward, the ability of the company to profitably scale-up its operations, improve its overall solvency position, and efficiently manage its working capital requirements will remain the key rating sensitivities. Further any new capex and funding mix for the same will also remain a key rating consideration.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations

The company's scale of operations has remained modest at Rs.138.03 Cr., in FY19. However, the same has steadily increased at a CAGR (Compounded Annual Growth Rate) of 14% for the period FY16- FY19, on the back of increased orders received from both existing and new customers.

Elongated working capital cycle

The operations of the company are working capital intensive in nature as reflected by average operating cycle of 142 days as on March 31, 2019. 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 102 days as on March 31, 2019. 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 as on March 31, 2019

Susceptibility to raw material price fluctuations

The raw material cost has remained a major contributor to the total operating cost of PSML. The entities in the 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 prices of other raw materials, i.e. manmade yarn are linked to that of crude oil. The general volatility in the crude oil prices also has an impact on the price of this product.

High competition from organised/unorganised players

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.

Key Rating Strengths

Experienced and resourceful promoters with established track record of the company

PSML has been engaged in selling of shirting fabric & ladies dress material and is being managed by Mr. Jatinder Pal Singh, Managing Director and Ms. Kuljeet Kaur (wife of Mr. Jatinder Pal Singh) who have an experience of more than two and a half

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

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. To support various business requirements, the promoters of the company have infused unsecured loans (USL) to the tune of Rs.18.01 crore, till March 31, 2019. Unsecured loans amounting to Rs.16.30 Cr. remain subordinated to the bank loans. The requisite documents pertaining to subordination were received in Q1FY20.

Favorable location of operations and established marketing network

The company is situated in Ludhiana which is a well-established manufacturing hub of textiles. PSML derives the comfort from its strategic location in terms of easy accessibility to a large customer base as well as readily availability of raw materials owning to established suppliers presence in the same location as well. The company sells its products (shirting fabrics and ladies dress material) under the brand "Ramtex" through its network of 67 dealers based in Uttar Pradesh, Delhi, Haryana and Punjab. Over the years, the company has expanded its dealer network leading to widening reach of the company in tier-2 and ter-3 cities.

In Q1FY20 (UA), the company has achieved total operating income of Rs.36.79 crore and PAT of Rs.2.25 crore as against total operating income of Rs.34.10 crore and PAT of Rs.1.53 crore in Q1FY19 (UA).

Improving profitability margins and satisfactory solvency position

The PBILDT margin has improved from 8.25% in FY17 to 12.04% in FY19 mainly on account of increased contribution and capacity utilization of digital printing segment which commands a higher margin in the market. Furthermore, certain activities (including designing, digital printing and embroidery) which were earlier outsourced are now carried in-house post installation of required machines which has led to the improvement of margins during the period.

The capital structure of the company remained at a satisfactory level with the long term debt to equity ratio and overall gearing ratios at 0.43x and 1.25x respectively, as on March 31, 2019 (0.44x and 1.50x respectively, as on March 31, 2018). The interest coverage ratio remained comfortable at 2.55x in FY19 while the total debt to GCA stood at 5.77 x as on March 31, 2019.

Liquidity: Adequate

The current ratio of the company stood at a satisfactory level of 1.35x, as on March 31, 2019. Though the cash credit limit utilisation level remained high at ~95%, in the last twelve months ended, August-2019, the company has a scheduled debt repayment obligation of Rs.2.46 Cr. only, which is proposed to be met through the internal accruals (GCA of Rs.8.40 crore in FY19). The company has proposed a capex at a total cost of Rs.8.52 Cr. proposed to be funded through a debt of Rs.6.00 Cr., while the remaining is expected to be funded through internal accruals. The capex is expected to achieve COD in October 2019.

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

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, 2019. PSML sells shirting fabric and ladies dress material under the brand name of '*Ramtex*' through its network of 67 dealers located in Chandigarh, Delhi, Haryana and Punjab.

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)^	FY19 (A)
Total operating income	118.00	138.03
PBILDT	10.85	16.62
PAT	2.24	5.40
Overall gearing (times)	1.50	1.25
Interest coverage (times)	1.96	2.55

^calculated considering unsecured loans (amounting to Rs.16.30 Cr.) as part of net-worth, which was earlier considered as a part of debt (in absence of subordination).

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	15.00	CARE BB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (12-Jul-19)	1)CARE BB-; Stable (16-Aug-18)	1)CARE B; Stable; ISSUER NOT COOPERATING* (13-Feb-18)	1)CARE BB-; Stable (09-Feb-17)
2.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (12-Jul-19)	1)CARE BB-; Stable (16-Aug-18)	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	-	-	1)Withdrawn (12-Jul-19)	1)CARE A4 (16-Aug-18)	-	-
4.	Fund-based - LT-Term Loan	LT	15.00	CARE BB+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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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