May 11, 2023

Pal Fashions Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Cash credit	20.00	20.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+(Stable)
Long term - Term loans	8.00	8.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+(Stable)
Short term - Bank Guarantee	1.00	1.00	[ICRA]A3; upgraded from [ICRA]A4+
Total	**29.00**	**29.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade for Pal Fashions Private Limited (PFPL) primarily considers the significant improvement in its financial performance in FY2022 and in 10M FY2023, whereby the company's revenues increased significantly. The operating income has increased to Rs. 97 crore in FY2022 from Rs. 40.4 crore in FY2021. The revenue in FY2023 grew further to Rs. 184 crore. The entity's margins and cash accruals also improved in FY2023. PFPL's operating margin stood at 15.8% in 10M FY2023, as per the provisional financial statements submitted by the management. The margins and cash accruals improved on the back of an increase in the scale of operations and higher proportion of revenue contributed by the sale of garments. This was further accompanied by an improvement in debt coverage metrics, with the interest coverage rising to 5.6 times in 10M FY2023. The entity's liquidity position improved as well, which is supported by a cushion of undrawn working capital limits of approximately Rs. 5 crore in March 2023. The ratings continue to favourably factor in the extensive experience of the promoters in the textile industry, and the efficient and technologically advanced operations of PFPL, with its sound designing capabilities. Also, the ratings continue to factor in PFPL's comfortable capital structure and sizeable funding support from its promoters through the infusion of unsecured loans of Rs. 33.79 crore as on March 31, 2023, which support its working capital intensive operations.

However, the ratings remain constrained by PFPL's high customer concentration risk with approximately 70% of its revenues derived from its top 10 customers in 9M FY2023. The ratings are further constrained by PFPL's geographical concentration risk, as over 95% of its revenue comes from domestic sales, with exports contributing less than 5% to its total revenue. The ratings are also limited by its highly working capital intensive nature of business, as reflected by its high debtors and inventory days. The intensely competitive and fragmented nature of the textiles industry is another constraining factor to the entity's ratings.

The Stable outlook on [ICRA]BBB- rating reflects ICRA's expectation that the company would continue to improve its revenues as well as profitability on back of its healthy order book and a diversified revenue profile.

Key rating drivers and their description

Credit strengths

Healthy improvement in revenues and cash accruals in FY2023 – The entity's financial performance has improved significantly, and its revenues surged 140% in FY2022 and 89% in FY2023. In FY2023, the entity has generated a revenue of Rs. 184 crore. The profit before tax for FY2023 is expected to be around Rs. 18-20 crore, as per the management. As per the provisional financials for 10M FY2023, the entity had a PAT of Rs. 15.6 crore, which marks a significant improvement in the financial performance, given that the entity had incurred losses in FY2021 and FY2022. The cash accruals have increased to Rs. 18.2 crore in 10M FY2023 from -Rs. 2.2 crore in FY2022 due to better profitability.

Extensive experience of the promoters in textile industry – The company is promoted by Mr. Arvinder Singh Ahuja, Mr. Charanpreet Singh Ahuja and Mr. Arjun Singh Ahuja. The promoters have three decades of experience in manufacturing embroidered fabrics. Through its established track record, PFPL enjoys good reputation in the textile embroidery market. Extensive experience of the promoters in the industry will guide the future growth of the company.

Promoters' support in the form of unsecured loans – PFPL's capital structure has remained moderate with a gearing of 1.1 times as on March 31, 2022 and 0.9 times as on January 31, 2023. The total debt decreased to Rs. 53.90 crore as on March 31, 2022 and increased slightly to Rs. 55.90 crore as on January 31, 2023 from Rs. 63.4 crore as on March 31, 2021. Of the total debt availed by PFPL, around 70% of its total debt consists of unsecured loans from its promoters, which provides cover to its short-term liquidity needs.

Technologically advanced operations and machinery – The production facility at Tarapur has a textiles manufacturing plant spread over five acres of land. This facility is equipped with state-of-the-art machines from Switzerland, Austria, Germany, Italy, Japan, Korea and Taiwan besides those procured from India. PFPL uses 19 fully automated machinery of Lasser, Switzerland for embroidery with negligible human intervention.

Credit challenges

High customer concentration risk – PFPL's customers include garment manufacturers, local traders and exporters etc. The company's customer concentration risk continued to remain high, as reflected by its top ten clients driving around 69% of its total sales in 9M FY2023. Nonetheless, established associations with its key clients and numerous repeat orders mitigate this risk to an extent.

Intense competition in the textiles industry – High level of competition and fragmented nature of the textiles industry constrain the credit profile of the entity as it limits a sustained increase in scale. The commoditised nature of the products reduces pricing power, which affects profitability. Despite this, the entity has a slew of unique designs and products that set it apart from its competitors and give it the power to set prices at a premium compared to the rest of the market.

Liquidity position: Adequate

PFPL's liquidity position is adequate with higher cash accruals of Rs. 18.2 crore, a high working capital intensity and marginal free cash of Rs. 0.50 crore as on January 31, 2023. Improvement in the financial profile has boosted the cash accrual position and coverage indicators in 10M FY2023. The working capital intensity has reduced to 80.6% in FY2022 from 231.9% in FY2021 and to 53.6% in 10M FY2023. The company has no outstanding term loan, which has been repaid fully as of March 2023. Further, a buffer from the unutilised sanctioned limits of Rs. 5 crore provides comfort to the liquidity position to some extent.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company is able to achieve a sustained growth in revenues with improvement in profitability and liquidity position, strengthening the financial risk profile.

Negative factors – ICRA may downgrade the ratings in case of a significant decline in scale or profitability on a sustained basis, or if any major debt-funded capital expenditure, or a further stretch in the working capital cycle weakens the liquidity profile. Specific credit metrics, which could result in ratings downgrade include an interest coverage of less than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the India Textile Industry – Fabric Making Rating Methodology for Entities in the India Textile Industry - Apparels
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer.

About the company

Established in 1980, Pal Fashions Pvt. Ltd. (PFPL) manufactures women's ethnic wear embroidered fabrics. The company also sells garments including salwaar-kameez-dupatta sets under its brand name, Naari. PFPL's registered office is in Andheri, Mumbai and production facility is in Tarapur, Thane district.

PFPL's product basket comprises embroidered fabrics in polyester, cotton, rayon, silk as well as blends for shirting, dress materials, salwaar kameez dupatta, sarees, kurtas, blouses, curtains, bed spreads, kitchen linen and lingerie. The company also manufactures non-embroidered fabrics for which it carries out dyeing and finishing of fabrics after acquiring grey fabric. The production facility in Tarapur has a textiles manufacturing plant, which has an embroidery capacity of half a million metre or 300 million stitches per month and an installed textile processing capacity of 1.5 million metres per month.

Key financial indicators (audited)

	FY2021	FY2022	10M FY2023*
Operating Income (Rs. crore)	40.4	97.0	146.7
PAT (Rs. crore)	-7.8	-4.9	15.6
OPBDIT/OI (%)	-6.4%	2.3%	15.8%
PAT/OI (%)	-19.3%	-5.0%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.4	1.3
Total Debt/OPBDIT (times)	-24.5	24.2	2.0
Interest Coverage (times)	-0.5	0.4	5.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisionals*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2023 (Rs. crore)	Date & Rating on	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					May 11, 2023	Mar 28, 2022	Sep 30, 2021	April 08, 2020	May 27 2019
1	Cash Credit	Long-Term	20.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable); Removed from ISSUER NOT COOPERATING	[ICRA]BBB (Negative) ISSUER NOT COOPERATING	[ICRA]BBB (Negative)	[ICRA]BBB (Stable); Removed from ISSUER NOT COOPERATING
2	Term Loan	Long-Term	8.00	0.26	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable); Removed from ISSUER NOT COOPERATING	[ICRA]BBB (Negative) *; ISSUER NOT COOPERATING	[ICRA]BBB (Negative)	[ICRA]BBB (Stable); Removed from ISSUER NOT COOPERATING
3	Bank Guarantee	Short-Term	1.00	-	[ICRA]A3	[ICRA]A4+; Removed from ISSUER NOT COOPERATING	[ICRA]A3+ ISSUER NOT COOPERATING	[ICRA]A3+	[ICRA]A3+; Removed from ISSUER NOT COOPERATING

Complexity level of the rated instrument

Instrument	Instrument Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Bank Guarantee	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	20.00	[ICRA]BBB- (Stable)
NA	Term Loan	FY2017	NA	FY2023	8.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA] A3

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – NA

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Kaushik Das
+91 22 6114 3438
kaushikd@icraindia.com

Gaurav Singla
+91 124 4545 366
gaurav.singla@icraindia.com

Mrinal M Nayak
+91 80 4332 6407
mrinal.nayak@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches