

June 28, 2024

Paramount Textile Mills Private Limited: Ratings upgraded to [ICRA]BBB+ (Stable)/ [ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	5.80	6.90	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB(Stable)
Long term – Fund-based- Cash credit	30.00	25.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB(Stable)
Short term –Non fund based	3.00	3.00	[ICRA]A2; upgraded from [ICRA]A3+
Long term – Unallocated	3.36	7.26	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB(Stable)
Total	42.16	42.16	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade considers better-than-expected operational and financial performances of Paramount Textile Mills Private Limited (PTMPL), including its Group company, Shree Sarvaloka Textiles Private Limited (SSTPL), in FY2024 (provisional). Such performances are expected to continue in the near-to-medium term, supported by experience of its promoters and the company's established position among renowned global brands and value retailers. The consolidated revenues of PTMPL grew by ~17% in FY2024 on a YoY basis against a 4.4% growth witnessed in FY2023. Its operating margins improved to 14.3% in FY2024 against 11.7% in FY2023 due to reduction in provision created towards claims raised by its customer in FY2024. Besides, the ratings draw comfort from the Group's backward integration within the value chain, which provides an edge over its competitors and allows the company to efficiently manage its cost structure. Going forward, ICRA expects that the Group's credit profile would continue to remain comfortable with low gearing and comfortable liquidity.

The ratings, however, remain constrained by inherent cyclicity associated with the textile sector and the vulnerability of its profitability to fluctuations in raw material prices (mainly cotton) and forex rates. Also, any downward revision in the financial incentives may adversely impact the profit margins. The ratings are also constrained by competition from other domestic and international suppliers, high customer and geographical concentration risks and the risk of claims raised by its customer. While its debt coverage metrics remained comfortable in FY2024, with an interest coverage of 5.2 times and net debt/ OPBDITA of 1.2 times, the same are expected to moderate due to planned capacity additions for ~Rs. 34 crore in FY2025. However, its debt coverage metrics are still expected to remain comfortable.

The Stable outlook reflects ICRA's opinion that PTMPL is likely to sustain its revenue growth and operating metrics. Further, the outlook underlines ICRA's expectation that the company's incremental capex, if any, to further expand the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established position in fabric export industry and long association with large format retailers – PTMPL is an established manufacturer and exporter of made ups in the export market. The promoters of PTMPL have extensive experience in the textile industry. It has an established association with large format retailers in the US as well as high-end private labels/brands.

PTMPL's revenues witnessed a steady performance in the last two years, backed by its ability to secure sizeable repeat orders from its established clientele and add new customers.

Integrated nature of operations – The Group's revenue profile has diversified with backward integration of spinning in SSTPL, which provides an edge over its competitors and allows the company to efficiently manage its cost structure. SSTPL commenced its spinning operations in January 2023, and it had reported revenues of Rs. 113.8 crore in FY2024 (first full year of operations). Around 65% of PTMPL's total yarn requirement is met through SSTPL, resulting in better operational efficiency.

Comfortable capital structure and coverage indicators – PTMPL's financial profile remains comfortable, with its conservative capital structure and adequate coverage indicators with an interest coverage of 5.2 times and debt to operating profit of 2.0 times in FY2024. The debt coverage indicators are expected to moderate with debt-funded capex worth ~Rs.34 crore proposed to be incurred in FY2025. Nevertheless, the same are likely to remain within the comfortable levels in the near-to-medium term.

Credit Challenges

Exposed to geographical and customer concentration risks – PTMPL continues to derive most of its revenues from exports to the US and other European countries, resulting in vulnerability to demand trends in the key markets. Exports to the US have increased to ~43% in FY2024 against ~36% in FY2023, of total revenues. Besides, the company's customer concentration risk is high, with its top five customers accounting for ~47% of its sales in FY2024.

Vulnerability of profitability to volatility in cotton yarn prices and forex rates – PTMPL's profitability is vulnerable to volatility in cotton yarn prices. PTMPL derives ~75% of its revenues from exports, and with limited dependence on imported raw materials, its profitability remains exposed to fluctuations in forex rates. Further, PTMPL's profitability is also exposed to competition from other domestic and international suppliers. PTMPL's profitability is supported by export incentives from the Government. Besides, these incentives support sales growth by making domestic textile manufacturers competitive in the global market. This exposes the company's profitability to any adverse change in the Government policies.

Liquidity position: Adequate

PTMPL's liquidity position remains adequate, supported by steady earnings and unutilised lines of credit. It has free cash and bank balances of Rs.35.9 crore and has buffer available in the working capital limits of Rs.12.5 crore as on March 31, 2024. Against these cash sources, the Group has repayment obligations of Rs. 9.7 crore in FY2025 and Rs. 13.5 crore in FY2026. Further, in FY2025, the proposed capex of ~Rs.34 crore is planned to be funded through term debt of Rs. 26.7 crore and the balance from retained earnings. Cash flow from operations are expected to be sufficient towards meeting its debt repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates a significant improvement in its scale, profitability and liquidity while maintaining comfortable debt coverage metrics on a sustained basis.

Negative factors – The ratings could be downgraded if there is a substantial decline in the company's operating performance or if it undertakes any large debt-funded capex, which would adversely impact the liquidity and debt protection metrics. Specific credit metrics that could trigger ratings downgrade include Total Debt/ OPBITDA exceeding 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Fabric Textiles- Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PTMPL, and other related entity mentioned in Annexure 2.

About the company

Paramount Textile Mills Private Limited (PTMPL), incorporated in 1979 in Madurai, manufactures and exports grey fabrics and made ups. The company, headed by Mr. M. Ramu, is present in fabrics, technical textiles and home textiles. The company has a capacity to produce 7.8 lakh metres per month of fabrics and 1.0 lakh metres per annum of technical textiles. It has a capacity of 8.20 sets for the made-ups division. PTMPL exports its product to various countries like the US, Israel and Germany, among others. The entity has scaled down its supplies to Israel due to macro-economic issues.

Shree Sarvaloka Textiles Private Limited (SSTPL) was incorporated in 2019 in Madurai. It was initially started as a commission agent and job work unit for its associate concern. In January 2023, it added 25,536 spindles and is currently supplying yarn, which is captively used by its Group entity, PTMPL. Around 90% of yarn produced by SSTPL is supplied to PTMPL. Also, PTMPL has extended corporate guarantee for the term loans taken by SSTPL towards setting up the spinning unit.

Key financial indicators (audited)

Consolidated (PTMPL and SSTPL)	FY2022	FY2023	FY2024*
Operating income	258.9	270.3	316.6
PAT	13.3	19.6	31.5
OPBDIT/OI	9.3%	11.7%	14.3%
PAT/OI	5.1%	7.2%	9.9%
Total outside liabilities/Tangible net worth (times)	1.3	1.9	1.4
Total debt/OPBDIT (times)	1.8	3.1	2.0
Interest coverage (times)	7.1	9.3	5.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Standalone- PTMPL	FY2022	FY2023	FY2024*
Operating income	258.8	267.8	306.2
PAT	11.1	12.7	12.4
OPBDIT/OI	7.8%	6.5%	4.5%
PAT/OI	4.3%	4.7%	4.1%
Total outside liabilities/Tangible net worth (times)	1.5	1.4	1.5
Total debt/OPBDIT (times)	1.6	0.8	1.3
Interest coverage (times)	6.1	14.5	28.0

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: The company has an outstanding rating of ACUITE BB; ISSUER NOT COOPERATING /ACUITE A4+ ISSUER NOT COOPERATING; Long-term ratings downgraded; Short-term ratings reaffirmed as on June 14, 2024, with ACUITE Ratings.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 28, 2024	Apr 17, 2023	-	Mar 11, 2022
1 Fund based – Term loans	Long term	6.90	6.9	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2 Fund based – Cash credit	Long term	25.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
3 Non fund based	Short term	3.00	--	[ICRA]A2	[ICRA]A3+	-	[ICRA]A3+
4 Unallocated	Long term	7.26	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term– Fund based- Term loan	Simple
Long term – Fund based – Cash credit	Simple
Short term –Non-fund based	Very Simple
Long Term– Unallocated	Not Applicable

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2023-FY2024	NA	FY2027-FY2030	6.90	[ICRA]BBB+ (Stable)
NA	Cash credit	-	NA	-	25.00	[ICRA]BBB+ (Stable)
NA	Non fund based	-	NA	-	3.00	[ICRA]A2
NA	Unallocated limits	-	NA	-	7.26	[ICRA]BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	PTMPL Ownership	Consolidation Approach
Shree Sarvaloka Textiles Private Limited*	-	Full Consolidation

* The consolidation is done basis the corporate guarantee being extended by PTMPL to the term loan being undertaken by Shree Sarvaloka Textiles Private Limited

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