December 07, 2023

Pee Vee Textiles Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term Loans	253.50	253.50	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Long-term fund based – Cash Credit	135.00	135.00	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Long-term non-fund based limits	7.00	7.00	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Short-term non-fund based limits	50.00	50.00	[ICRA]A2+; reaffirmed
Short-term – Unallocated Limits	29.50	29.50	[ICRA]A2+; reaffirmed
Total	**475.00**	**475.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating to Negative from Stable reflects the deterioration in Pee Vee Textile Limited's (PVTL) credit metrics following a decline in its profitability in FY2023 and H1 FY2024 amid industry-wide headwinds in terms of high volatility in cotton prices. Cotton prices rose sharply in FY2023, which exerted pressure on the margins as the company was unable to pass on the increased cost to its customers. Thereafter, cotton prices declined in H1 FY2024, translating into a correction in average realisations. However, as cotton stocking was done at relatively higher prices during January-March 2023, the gross margin of most textile players, including PVTL, has been adversely impacted. While the company's margins are likely to record some improvement in H2 FY2024, there exists substantial uncertainty on the extent of recovery due to the muted demand outlook, which could continue to exert pressure on PVTL's debt coverage indicators.

The company recorded a revenue of ~Rs. 475 crore in H1 FY2024, largely in line with last year's figures. Additionally, its exports doubled to ~Rs. 200 crore in the period, which mitigated the impact of domestic demand slowdown to an extent. PVTL's operating margin, however, contracted to 9.5% in H1 FY2024 from ~15% recorded in FY2021 and FY2022. ICRA expects PVTL to record a revenue of Rs. 980-1,000 crore in FY2024 with an operating profit margin of ~10%, translating into weaker-than-expected debt coverage indicators.

The ratings continue to favourably factor in the sizeable spinning and weaving capacities of the company along with a high degree of integration that fosters cost efficiencies and higher value addition. The ratings derive comfort from the extensive experience of PVTL's promoters and the company's track record of healthy capacity utilisation. Additionally, the ratings consider the comfortable capital structure and liquidity position of the company in light of its capital-extensive business.

The ratings, however, continue to remain constrained by the company's exposure to volatility in raw material prices along with the commoditised nature of products and the fragmented nature of the industry, which limit its pricing flexibility. The ratings also consider the capital-intensive nature of business, which necessitates regular capital expenditure and high raw material inventory holding.

Key rating drivers and their description

Credit strengths

Sizeable spinning and weaving capacities, including high levels of integration support operating efficiencies – PVTL has a sizeable installed weaving capacity of 616 air jet looms as on March 31, 2023, including 48 looms that were operationalised in

March 2023. Additionally, the company's operations are highly backward integrated with a versatile spinning capacity equivalent to ~1,35,000 spindles comprising 96,700 ring spindles, 1,944 open-end rotors and 1,344 vortex positions as on March 31, 2023. PVTL utilised 65-70% of its yarn for captive consumption, resulting in notable savings in transportation and packaging costs along with capturing a larger portion of the textile value chain.

Track record of healthy capacity utilisation supported by a large customer base – PVTL's spinning and weaving capacities have a long track record of healthy capacity utilisation with an average utilisation of more than 95% over the last five years, except in FY2021 when the operations were impacted by the pandemic-induced lockdowns. The company has a diversified customer base with exports (mainly to Italy and Bangladesh) contributing 30-35% to revenues, sales to large organised domestic players contributing 30-35% to revenue and sales to unorganised players through traders/agents accounting for the remaining revenues. The top five customers accounted for ~30% of PVTL's revenue over the last three years, which indicated healthy customer diversification.

Comfortable capital structure and adequate coverage metrics despite moderation in FY2023 – PVTL's capital structure remains comfortable with a gearing of 1.0 times and TOL/TNW of 1.3 times, as on March 31, 2023 against 1.1 times and 1.4 times, respectively as on March 31, 2022, driven by healthy accruals from operations despite regular debt-funded capital expenditure. The company's coverage metrics recorded a moderation in FY2023 owing to industry-wide cost pressure, however, the same remained adequate as reflected by the interest cover of 3.7 times and DSCR of 1.1 times in FY2023.

Extensive experience of promoters in the textile industry – PVTL's promoters, Mr. Arun Mohota and Mr. Adarsh Mohota, have extensive experience of over three decades in the textile industry, which enabled the company to foster established relationships with key customers and suppliers, resulting in repeat orders and stable raw material sourcing arrangements.

Credit challenges

Regular debt-funded capital expenditure towards plant modernisation and capacity addition – PVTL has a track record of regular and sizeable debt-funded capital expenditure towards the upgradation/modernisation of existing machinery and installation of new machinery, in line with the industry requirements. The company has undertaken a capital expenditure of Rs. 165 crore over FY2023 and FY2024, partly funded by fresh term debt of Rs. 105 crore. The sizeable borrowings are likely to exert pressure on the company's capital structure and coverage metrics.

Commoditised nature of product and fragmented industry – Yarn and greige fabric are both commoditised products with limited scope for product differentiation. Further, the domestic textile industry is highly fragmented, which increases competition and limits the pricing flexibility of players. The company's versatile plant with the capability to produce a wide range of products helps in mitigating the risk to some extent.

High working capital intensity of operations due to large raw material holding requirement; exposure to volatility in raw material prices – PVTL's working capital intensity is likely to remain elevated in the range of 30-35% over the medium term as the company is required to keep a sizeable inventory of raw materials, mainly raw cotton, due to its seasonal availability during the harvest season from November to March. High raw material inventory stocking also exposes the company's margins to sharp volatility in cotton prices, as witnessed in FY2023 and H1 FY2024.

Liquidity position: Adequate

PVTL's liquidity remains adequate, characterised by free cash and undrawn working capital limits worth ~Rs. 60 crore as on September 30, 2023 (with commensurate drawing power). The company is likely to generate cash flow from operations of more than Rs. 50 crore p.a. over the next 2-3 years. Against this, it has debt repayment obligations worth Rs. 52 crore in FY2024, Rs. 56 crore in FY2025 and Rs. 49 crore in FY2026. PVTL is estimated to incur capital expenditure of ~Rs. 110 crore in FY2024, partly financed by fresh term borrowing, and ~Rs. 15 crore p.a. thereafter. The average utilisation of fund-based working capital limits stood at ~58% in the 12-months period ending September 30, 2023 (with adequate drawing power), which indicates a healthy liquidity buffer. The company's liquidity buffer is also enhanced by capital subsidies of ~Rs. 63 crore, which are due to be received over the next 3-4 years.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a healthy improvement in revenue and debt protection metrics while maintaining its profit margins and working capital intensity. Specific credit metrics that could result in ratings upgrade include total debt/OPBDITA below 2.0 times on a sustained basis.

Negative factors – Pressure on the ratings may arise if cash accruals weaken due to reduced revenue and/or profit margins, any unanticipated debt-funded capex or a stretch in the working capital cycle materially impacting the company's liquidity profile. Specific credit metrics that could result in ratings downgrade include an interest cover below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Spinning) Rating Methodology – Textiles (Fabric Making)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1986 by members of the Mohota family, Pee Vee Textiles Limited (PVTL) is an integrated grey fabric manufacturer with captive yarn spinning capacities. The company operates manufacturing facilities in Wardha, Maharashtra with an installed spinning capacity equivalent to ~1,35,000 spindles comprising 96,700 ring spindles, 1,944 open-end rotors and 1,344 vortex positions along with a weaving capacity of 616 air jet looms as on March 31, 2023. It produces cotton yarn, poly-cotton yarn and poly-viscose yarn, which are mainly used for captive consumption for greige fabric.

Key financial indicators

Pee Vee Textiles Limited	FY2022 (audited)	FY2023 (audited)	H1 FY2024 (unaudited)
Operating income	981	981	475
PAT	59	27	6
OPBDIT/OI	14.8%	10.6%	9.5%
PAT/OI	6.0%	2.7%	1.3%
Total outside liabilities/Tangible net worth (times)	1.4	1.3	NA
Total debt/OPBDIT (times)	2.3	3.1	NA
Interest coverage (times)	5.8	3.7	3.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; NA – Not available
Note: All ratios as per ICRA calculations

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Dec 07, 2023	Jul 07, 2023	Aug 11, 2022	Sep 16, 2021	May 27, 2021	-
1	**Term loans**	Long-term	253.50	167.24	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	**Cash Credit**	Long-term	135.00	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	**Standby Line of Credit**	Long-term	7.00	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
4	**LC/BG**	Short-term	50.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
5	**Unallocated Limits**	Short-term	29.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
6	**Unallocated Limits**	Long-term	-	-	-	-	-	-	[ICRA]A- (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term Loans	Simple
Long-term fund based – Cash Credit	Simple
Long-term non-fund based limits	Simple
Short-term non-fund based limits	Simple
Short-term – Unallocated Limits	N.A.

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 Loan-I	FY2021	NA	FY2028	20.00	[ICRA]A (Negative)
NA	Term Loan-II	FY2014	NA	FY2024	3.18	[ICRA]A (Negative)
NA	Term Loan-III	FY2015	NA	FY2025	15.08	[ICRA]A (Negative)
NA	Term Loan-IV	FY2023	NA	FY2030	75.00	[ICRA]A (Negative)
NA	Term Loan-V	FY2014	NA	FY2024	5.00	[ICRA]A (Negative)
NA	Term Loan-VI	FY2020	NA	FY2029	27.30	[ICRA]A (Negative)
NA	Term Loan-VII	FY2016	NA	FY2025	5.29	[ICRA]A (Negative)
NA	Term Loan-VIII	FY2019	NA	FY2027	13.33	[ICRA]A (Negative)
NA	Term Loan-IX	FY2020	NA	FY2026	7.64	[ICRA]A (Negative)
NA	Term Loan-X	FY2018	NA	FY2026	10.00	[ICRA]A (Negative)
NA	Term Loan-XI	FY2019	NA	FY2026	11.00	[ICRA]A (Negative)
NA	Term Loan-XII	FY2021	NA	FY2028	16.00	[ICRA]A (Negative)
NA	Term Loan-XIII	FY2023	NA	FY2030	30.00	[ICRA]A (Negative)
NA	Term Loan-XIV	FY2021	NA	FY2026	4.86	[ICRA]A (Negative)
NA	Term Loan-XV	FY2018	NA	FY2026	9.82	[ICRA]A (Negative)
NA	Cash Credit	NA	NA	NA	135.00	[ICRA]A (Negative)
NA	Standby Line of Credit	NA	NA	NA	7.00	[ICRA]A (Negative)
NA	LC/BG	NA	NA	NA	50.00	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	29.50	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – N.A.

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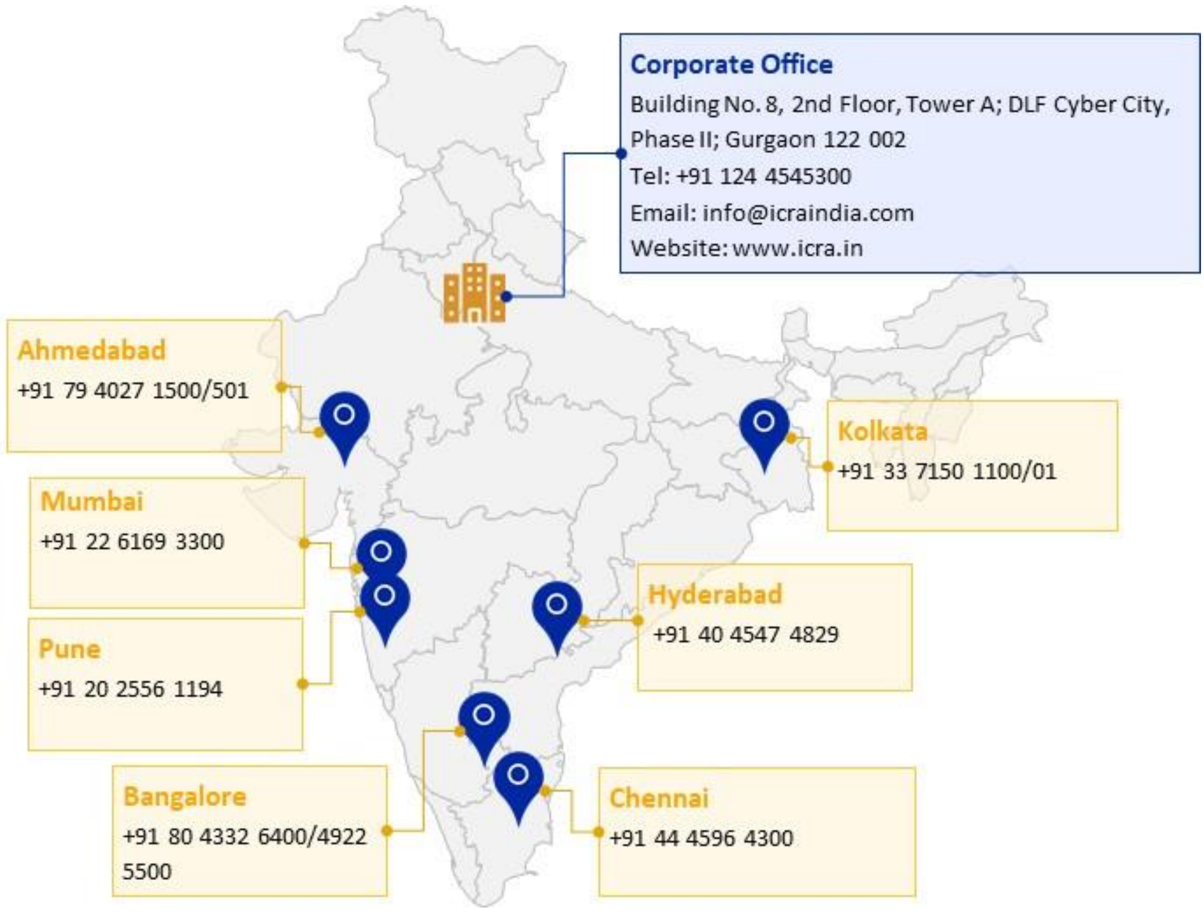

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