April 02, 2024

Paliwal Overseas Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Term Loan	29.45	29.45	[ICRA]A (Stable); reaffirmed
Long Term-Unallocated	33.72	33.72	[ICRA]A (Stable); reaffirmed
Total	**63.17**	**63.17**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has consolidated the financials of three entities of the Avinash Paliwal Group (referred to as the Paliwal Group or the Group, hereafter), namely Abhitex International (Abhitex), Paliwal Overseas Pvt. Ltd. (POPL) and Paliwal Infrastructure Pvt Ltd (PIPL) (refer to the Analytical Approach for details).

The rating reaffirmation favourably factors in the established track record of the Paliwal Group with its diversified presence across textile and real estate businesses, supported by the promoters' extensive experience in these segments and a healthy financial risk profile. The promoters' experience of more than four decades in the textile industry and established relationships with reputed overseas clientele have facilitated repeat business, supporting a steady revenue growth in the Group's home textile segment over the years. Further, a strong track record of 100% occupancy (barring some intermittent vacancies during the pandemic) by reputed tenants in its commercial properties owing to their attractive locations provides comfort. ICRA notes that the Group's consolidated revenues moderated in FY2023 and are expected to remain muted in FY2024 due to subdued demand conditions in international markets, even though revenues from the real estate division have improved in both years. The Group's consolidated operating profitability improved to 24.4% in FY2023 from 16.3% in FY2022, and further to 25.7% in 9M FY2024 (provisional numbers), owing to increase in sales of high-margin yielding polyester-based bath rugs in the textile business and achievement of 100% occupancy in the real estate projects since the second half of FY2022.

The rating, however, continue to be constrained by high client as well as geographical concentration risks in both textiles as well as its real estate businesses. Besides, the concentration of the Group's lease rental revenues among its top few clients and medium tenure lease contracts with most of its clients expose the Group to risks associated with timely renewal of leases at favourable rentals. The inventory holding continues to be high in the textile business, resulting in high working capital intensity. This also exposes the Group to the risk of volatility in prices of raw materials (mainly cotton yarn) and finished goods, as there is a lag between order booking and deliveries. In addition, the textile segment's profitability remains exposed to any adverse change in the export incentive structure, which currently supports the profitability of textile exporters as well as the Group's competitive edge among other domestic and global players. ICRA also notes that the entity has a proposed debt-funded capex worth ~Rs. 150 crore, to be incurred between FY2024 and FY2026, which would increase its debt servicing obligations over the medium term. However, ICRA expects the Group's capitalisation and debt coverage metrics to remain healthy in the near-to-medium term, with steady surplus cash accrual capacity of the businesses. Besides, ICRA has also noted the risk of capital withdrawal from the partnership firm (Abhitex) and the Group's track record of investments in non-return generating real estate assets.

The Stable outlook on the [ICRA]A rating reflects ICRA's expectation that a recovery in demand in the textile segment and timely receipt of rentals from commercial properties would help the Group report a healthy growth in revenues and maintain healthy margins. Further, the outlook underlines ICRA's expectation that the proposed incremental capex in the textile business for further expanding the capacities would be funded in a manner that it can durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in home textile and commercial real estate businesses – The Paliwal Group is promoted by Mr. Avinash Paliwal, who has extensive experience in the home textiles and real-estate businesses. Operational since 1974, the textile arm of the Group, Abhitex, has more than four decades of experience in the sector. Further, the Group ventured into real estate in 2004 with the acquisition of a commercial property in Bengaluru, thus translating into two decades experience in the commercial real estate market.

Strong relationships with overseas clientele including leading home furnishing retailers – Over the years, the Group has developed a strong client base in the export markets of the US and the UK, which have been providing repeat business. Abhitex derives most of its revenues from the export clients comprising established brands.

Prime location of commercial properties in key business districts – The commercial properties of the Group are in the secondary business districts (SBDs) of Hyderabad and Bengaluru. Supported by their prime locations and competitive rentals, the Group's clients have historically renewed the leases in a timely manner. Barring the intermittent vacancies, the occupancy rate in the Group's properties has remained healthy since their acquisition. Besides Hyderabad and Bengaluru, the Group also has commercial properties in Delhi and Panipat (Haryana), which have been leased out to various tenants. These properties contribute marginal but steady revenues to the Group.

Healthy financial risk profile – The Group has a strong financial profile, characterised by a strong capital base (net worth of Rs. 578.5 crore as on March 31, 2023), a conservative capital structure (TD/ TNW of 0.1 times and Total Outside Liabilities/ TNW of 0.3 times as on March 31, 2023) and healthy debt coverage indicators (interest coverage of 30.1 times and TD/ OPBDITA of 0.9 times in FY2023). In the past few years, with progressive debt repayments and limited debt-funded capital investments, there have been a consistent decline in the Group's term borrowings. Further, availability of surplus cash accruals for part funding of working capital requirements has kept reliance on working capital borrowings range bound, despite increasing scale of operations. Though its revenues moderated in FY2023 and the recovery is likely to be muted in FY2024 owing to weak demand in its textiles division, the Group's debt protection metrics are expected to remain strong with the increasing share of high margin yielding products to its sales mix and a 100% occupancy achieved in its real estate projects since the second half of FY2022. ICRA also notes that the entity has a proposed debt-funded capex worth ~Rs. 150 crore, to be incurred between FY2024 and FY2026, which would increase its debt servicing obligations in the medium term. However, ICRA expects the Group's capitalisation and debt coverage metrics to remain healthy in the near-to-medium term, with steady surplus cash generation capacity of the businesses.

Credit challenges

Track record of aggressively deploying surplus accruals in the Group's non-return generating real estate investments – Over the years, the Group has deployed surpluses in the non-return generating real estate assets, primarily in housing plots in Panipat. As most of these investments are not generating any meaningful return at present, they have impacted the Group's return indicators (as reflected in a consolidated ROCE of 12.0% in FY2023). While the Group does not propose any further development or significant investment in these projects, any major incremental investment towards these projects that affects its liquidity position and/or results in increased leveraging would remain a rating sensitivity.

High export dependence with geographical concentration makes the Group's textile business vulnerable to slowdown in overseas markets – Abhitex derives most of its revenue (more than 95%) from the export market, mainly driven by the US market (with a ~88% share in its total revenues in FY2023), followed by the UK market (~7%). High reliance on exports with a concentrated exposure to the said two markets exposes Abhitex's and the Group's revenue as well as profitability to any slowdown in these regions. ICRA, however, notes that the forex fluctuation risk remains abated by the Group's prudent policy of hedging half of the forex exposure.

High working capital intensity owing to high inventory holding requirement in the textile business – Abhitex's business remains working capital intensive, with high inventory holding requirements (96 days in FY2023), exposing the profitability to volatility in raw material prices (primarily cotton yarn). Besides raw material stocking, large inventory holding also emanates from the requirement of large, finished goods inventories for consignment-based dispatches in export orders. As a result, reliance on working capital borrowings in the textile segment remains high.

Vulnerability to change in export incentive policies and rates – The profitability of Abhitex, like other textile exporters, is supported by export incentives provided by the Government of India, which accounted for ~64% of the operating profits of Abhitex in FY2023. These incentives have also been supporting sales growth by making domestic textile manufacturers competitive in the global market. This exposes the exporters' profitability to any adverse change in the policies. In this context, ICRA notes the extension of the Rebate of State and Central Taxes and Levies (RoSCTL) scheme for made-ups till March 2026, which has ensured stability and enabled exporters to effectively price their products.

Liquidity position: Adequate

The Group's liquidity position is adequate, corroborated by the average cushion of ~Rs. 22 crore (~35% of the drawing power) in its fund-based working capital limits in the last six months ending in February 2024. Further, healthy fund flow from operations, moderate scheduled repayments (~Rs. 13 crore in FY2024 and ~Rs. 11 crore in FY2025) provide comfort to the Group's liquidity position. Large debt-funded capex in the pipeline for ~Rs. 150 crore, to be incurred in FY2025 and FY2026, is expected to be met through debt and equity, in the ratio of 75:25. Nonetheless, ICRA expects the Group's cash flow from operations to remain adequate to fund margin requirements towards this capex as well as its scheduled debt repayment obligations. Any aggressive/sizeable acquisition by the Group or deployment of funds in non-return generating assets without commensurate funding tie-ups or any substantial capital withdrawal by the partners, could impact its liquidity position.

Rating sensitivities

Positive factors – The rating could be upgraded if the Group achieves a sustained healthy growth in its scale of operations and profitability, while maintaining its debt coverage metrics and a healthy liquidity profile. Specific metrics that may trigger a rating upgrade include ROCE of more than 18% on a sustained basis.

Negative factors – The rating could be downgraded if there is a sustained pressure on the Group's revenues and profitability. Further, a stretch in the working capital cycle or sizeable investments or high capital withdrawals by the partners, adversely impacting its financial risk profile or the liquidity profile could also exert a downward pressure on the rating. Specific metrics that may trigger a rating downgrade includes DSCR of less than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -Textiles (Fabric making) Rating Methodology for Lease Rental Discounting
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of various Group entities (as mentioned in Annexure-II) given the close ownership, financial and managerial linkages among them. There are cross holdings among the three entities as POPL owns a ~42% stake in PIPL and PIPL is a partner in Abhitex. The companies have also extended corporate guarantees in favour of Group companies. Further, the cash flows are also supported by other companies, if required, indicating strong cash fungibility.

About the company

POPL was incorporated in 1985 by Mr. Avinash Paliwal to undertake operations in the textile sector. POPL purchased a commercial property in Bengaluru in 2004 and since then it is involved in the business of leasing commercial office space. The building has a 100% occupancy at present with leases to reputed companies. POPL deploys surplus funds from the business to other real estate ventures of the Avinash Paliwal Group.

About the Group

Abhitex International is a part of the Avinash Paliwal Group of Panipat, which has business interests in home textiles and real estate sectors. The Group is promoted by Mr. Avinash Paliwal, who has more than four decades of experience in manufacturing and exporting of textile products. The key operations of the Group are carried out by three entities, namely Abhitex, POPL and PIPL. While Abhitex operates in the home textiles space, POPL and PIPL own commercial buildings.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	9M FY2024*
Operating income	433.5	369.0	251.9
PAT	43.4	53.7	39.1
OPBDIT/OI	16.3%	24.4%	25.7%
PAT/OI	10.0%	14.6%	15.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.3
Total debt/OPBDIT (times)	1.7	0.9	1.2
Interest coverage (times)	18.1	30.1	17.7

*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: Not applicable

Any other information: None

Rating history for past three years

S. No	Instrument	Current rating (FY2025)				Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 2, 2024	--	Feb 23, 2023	Dec 31, 2021
1	**Term Loan**	Long Term	29.45	13.66	[ICRA]A (Stable)	--	[ICRA]A (Stable)	[ICRA]A (Stable)
2	**Unallocated**	Long Term	33.72	--	[ICRA]A (Stable)	--	[ICRA]A (Stable)	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Term Loan	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	Long Term-Fund Based-Term Loan	FY2018-FY2023	NA	FY2023-FY2028	29.45	[ICRA]A (Stable)
NA	Long Term-Unallocated	NA	NA	NA	33.72	[ICRA]A (Stable)

Source: *Group*

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Abhitex International	100% owned by promoters and Group entities	Full Consolidation
Paliwal Infrastructure Pvt. Ltd.	100% owned by promoters and Group entities	Full Consolidation
Paliwal Overseas Pvt. Ltd.	100% owned by promoters	Full Consolidation

Source: Company

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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.

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