August 28, 2024

Pal Fashions Private Limited: Ratings upgraded to [ICRA]BBB (Stable)/ [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based- Cash credit	20.00	20.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long term – Fund based- Term loans	8.00	2.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short term – Non fund based- Bank guarantee	1.00	1.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**29.00**	**23.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade considers the better-than-expected operational and financial performances of Pal Fashions Private Limited (PFPL) in FY2024 and further improvement expected over the medium term, supported by extensive experience of the promoters in the textile industry. While PFPL's revenues grew by 16.3% on a YoY basis in FY2024 (provisional) to Rs. 212.8 crore, its operating margins moderated by 380 bps to 11.3% in FY2024 due to lower margins on orders executed. However, the margins remained higher than the average for the last five years. PFPL's financial profile remains comfortable owing to its conservative capital structure and improved coverage indicators. In FY2024, the debt-to-operating profit and interest coverage ratio stood at 1.7 times and 6.4 times, respectively against 1.7 times and 5.7 times, respectively in FY2023. Adjusted external debt, excluding borrowings from promoters of Rs. 35.7 crore, stood at Rs. 4.4 crore as of March 31, 2024 (Rs. 16.6 crore as on March 31, 2023). Further, PFPL's liquidity position has improved in FY2024, backed by steady earnings that support its working capital-intensive operations.

The ratings, however, remain constrained by the intensely competitive and fragmented nature of the textiles industry. Further, there is inherent cyclicality associated with the textile sector and the profitability is vulnerable to fluctuations in raw material prices. The ratings remain constrained by PFPL's high customer concentration risk with ~80% of its revenues derived from its top 5 customers in FY2024 and its highly working capital-intensive nature of business. ICRA notes the penalty of Rs.0.45 crore levied by the National Green Tribunal (NGT) for alleged violation of environmental norms and PFPL has deposited Rs. 0.35 crore under protest, which remains a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that PFPL is likely to improve its revenues and operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase 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

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 more than 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 is expected to guide the future growth of the company.

Comfortable capital structure and coverage indicators – PFPL's capital structure stood comfortable with TD/TNW of 0.5 times as on March 31, 2024 against 0.7 times as on March 31, 2023. Increase in retained earnings and rise in loan availed from promoters to Rs. 35.7 crore in FY2024 from Rs. 29.8 crore in FY2023, supported liquidity of the entity. Adjusted external debt, excluding borrowings from promoters and related parties of Rs. 35.7 crore, stood at Rs. 4.4 crore as of March 31, 2024. Further, coverage indicators stood comfortable with the debt to operating profit and interest coverage ratios of 1.7 times and 6.4 times, respectively in FY2024, against 1.7 times and 5.7 times in FY2023.

Credit challenges

Intense competition in the textiles industry – Intense competition and fragmented nature of the textiles industry constrain the credit profile of the entity as the same limit a sustained increase in scale. The commoditised nature of the products reduces pricing power, which affects profitability. Despite this, the entity has many 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.

High customer concentration risk – PFPL's customers include garment retailers, manufacturers, local traders and exporters etc. The company's customer concentration risk continued to remain high, as reflected by its top five clients, driving around 80% of its total sales in FY2024. Nonetheless, established associations with its key clients and numerous repeat orders mitigate this risk to an extent.

Liquidity position: Adequate

PFPL's liquidity position remains adequate, supported by steady earnings and unutilised lines of credit. It has free cash and bank balances of ~Rs.17 crore and has buffer available in the working capital limits of Rs.17.3 crore as on July 31, 2024. Against these cash sources, the company has no term loan borrowings as of March 31, 2024 and is planning to avail a term loan of Rs.2 crore towards the proposed capex of ~Rs. 5 crore in FY2025, with the balance requirements being met from retained earnings. Cash flows from operations are expected to be sufficient towards meeting its debt repayment obligations.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company is able to achieve a substantial 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 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Fabric Textiles - 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) is engaged in manufacturing of women's ethnic wear and dyeing of fabric. The company also sells garments including salwaar-kameez-dupatta sets under its brand name, Naari. PFPL's registered office is in Andheri, Mumbai and its 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 etc. The company also manufactures non-embroidered fabrics for which it carries out dyeing and finishing of fabrics after acquiring grey fabric. The company has in-house capacity for fabric processing (for 1.5 million metres per month), while garment manufacturing is done on a job work basis.

Key financial indicators

	FY2023	FY2024*
Operating income	182.9	212.8
PAT	17.8	13.1
OPBDIT/OI	15.1%	11.3%
PAT/OI	9.8%	6.2%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	1.7	1.7
Interest coverage (times)	5.7	6.4

*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	Type	Amount Rated (Rs. crore)	Current Rating (FY2025)	Chronology of Rating History for the past 3 years			
				Date & Rating on	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
				August 28, 2024	May 11, 2023		Mar 28, 2022	Sep 30, 2021
1	**Cash Credit**	Long-Term	20.00	**[ICRA]BBB(Stable)**	**[ICRA]BBB-(Stable)**	-	**[ICRA]BB+ (Stable); Removed from ISSUER NOT COOPERATING**	**[ICRA]BBB (Negative); ISSUER NOT COOPERATING**
2	**Term Loan**	Long-Term	2.00	**[ICRA]BBB(Stable)**	**[ICRA]BBB-(Stable)**	-	**[ICRA]BB+ (Stable); Removed from ISSUER NOT COOPERATING**	**[ICRA]BBB (Negative); ISSUER NOT COOPERATING**
3	**Bank Guarantee**	Short-Term	1.00	**[ICRA]A3+**	**[ICRA]A3**	-	**[ICRA]A4+; Removed from ISSUER NOT COOPERATING**	**[ICRA]A3+; ISSUER NOT COOPERATING**

Complexity level of the rated instruments

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 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	**Cash Credit**	NA	NA	NA	20.00	[ICRA]BBB (Stable)
NA	**Term Loan**	FY2025	NA	FY2029	2.00	[ICRA]BBB (Stable)
NA	**Bank Guarantee**	NA	NA	NA	1.00	[ICRA] A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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

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