

January 08, 2025

## Pee Vee Textiles Limited: Long-term rating downgraded to [ICRA]A-; outlook revised to Stable from Negative, short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Working Capital Facilities	135.00	135.00	[ICRA]A-, downgraded from [ICRA]A; outlook revised to Stable from Negative
Long-term – Fund-based Limits – Term Loans	253.50	176.65	[ICRA]A-, downgraded from [ICRA]A; outlook revised to Stable from Negative
Long-term – Non-Fund-based Limits – Working Capital Facilities	7.00	7.00	[ICRA]A-, downgraded from [ICRA]A; outlook revised to Stable from Negative
Short-term – Non-Fund-based Limits – Working Capital Facilities	50.00	50.00	[ICRA]A2+; reaffirmed
Short-term – Unallocated Limits	29.50	106.35	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>475.00</b>	<b>475.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The long-term rating downgrade of Pee Vee Textile Limited (PVTL) primarily considers the moderation in the profitability of the company, resulting in weakening of the debt protection metrics over the past two years amid industry-wide headwinds as unfavourable demand led to muted realisation. A sharp rise in the power tariff led to an increase in the overall cost of production, impacting the margins in FY2024. ICRA believes that increased power tariff would continue to have a bearing on the profitability of the company, going forward.

Meanwhile, 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. ICRA notes that a major portion of yarn produced by the company is captively consumed to manufacture grey fabric. The ratings also derive comfort from the extensive experience of the promoters and the company's track record of healthy capacity utilisation. Additionally, the ratings consider the company's comfortable capital structure.

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. The net working capital relative to the operating income of the company stood at a high level of 34% in FY2024, exerting pressure on its liquidity.

The Stable outlook on the long-term rating reflects ICRA's expectations that PVTL's debt protection metrics would gradually improve over the medium term in view of the likely improvement in realisation. The company's cash flows are likely to remain comfortable relative to its debt service obligations. Moreover, adequate headroom is available in the working capital limits, which would continue to support its liquidity.

## Key rating drivers and their description

### Credit strengths

**Long experience of the 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.

**Sizeable spinning and weaving capacities, including high level of integration, support operating efficiencies** – The company has a sizeable installed weaving capacity of 616 air jet looms. Additionally, the company's operations are highly backward integrated with a versatile spinning capacity equivalent to around 1,55,000 spindles comprising 97,500 ring spindles, 1,944 open-end rotors and 2,208 vortex positions, at present. PVTL utilises 65-75% of its yarn for captive consumption to manufacture grey fabric, resulting in notable savings in transportation and packaging costs along with capturing a larger portion of the textile value chain.

**Optimum capacity utilisation supported by a large and diversified customer base** – PVTL's spinning and weaving capacities have a long track record of healthy capacity utilisation over the past few years, except in FY2021 when the operations were impacted by the pandemic-induced lockdowns. The average capacity utilisation of the spinning division stood at around 95% and that of the weaving division at around 97% in FY2024. A major portion (~40% in terms of value) of the company's products, primarily greige fabric, is exported to Europe, Africa, Bangladesh and South-East Asian countries. However, export to Bangladesh accounted for the major portion (~62% in FY2024) of the company's export revenue in the past. The company has a diversified customer base with exports contributing 35-40% 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 28-29% of the company's turnover over the last two years, which indicates healthy customer diversification.

### Credit challenges

**Moderation in profitability, leading to weakening of debt protection metrics** – The prices of raw cotton recorded a steep rise in FY2023, owing to geo-political tensions and commodity inflation amid supply chain bottlenecks. Consequently, the demand for fabric was impacted by high inflation and high prices. The cost pressure led to a moderation in the gross profit margin of PVTL, which led to a decline in the operating margin (OPM) to 10.6% in FY2023 from 14.8% in FY2022. While the cost pressure related to raw materials subsided to an extent in FY2024, increase in power tariff by ~28% led to a rise in the cost of production, adversely impacting PVTL's profitability. Although the gross profit margin registered an improvement, the increased power tariff led to a decline in the OPM of the company by ~70 bps to 9.9% in FY2024. The net profit margin was further impacted by high interest expenses and stood at a low level of 1.5% in FY2024. Moderation in the profitability resulted in weakening of coverage indicators over the past two years, as reflected from an interest coverage of 2.6 times in FY2024, down from 5.8 times in FY2022, and total debt/ OPBDITA of 3.9 times in FY2024, up from 2.3 times in FY2022. ICRA does not expect any significant improvement in the debt coverage indicators of the company, in the near term at least.

**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 results in intense competition and limits the pricing flexibility of players. The company's versatile plant with the capability to produce a wide range of products mitigate such 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 the past.

## Liquidity position: Adequate

PVTL generated positive cash flow from operations over the past few years, driven by sizeable cash accruals from business, despite a high working capital intensity of operations. The same is likely to continue in the near term as well. The free cash flow of the company, which turned negative in FY2024 due to significant cash outgo for capex, is expected to turn positive in FY2025 owing to a lower cash outgo for capex. The average fund-based working capital utilisation of the company stood at a moderate level of around 64% during the last 15 months, ended in September 2024, leaving adequate buffer for any additional working capital requirement. The company has long-term debt repayment obligations of ~Rs. 57 crore in FY2025 and ~Rs. 48 crore in FY2026, including lease liabilities. PVTL is expected to generate cash accruals of around Rs. 55-65 crore over the next two years, which would be adequate to meet its incremental working capital requirements, long-term debt repayment obligations and moderate capital expenditure of Rs. 15-20 crore. The company has applied for a term loan of Rs. 35 crore for the ongoing capex (project of Rs. 50 crore for modernization/ upgradation of the manufacturing facilities), which is likely to be partially drawn in the current fiscal and the balance in the next fiscal. The company is entitled for a capital subsidy towards investment in plant & machinery under Maha Technology Upgradation Fund Scheme (Maha-TUFS) from the Govt. of Maharashtra over the next few years, which once received, would support its cash flow position. ICRA expects the overall liquidity position of the company to remain adequate, going forward.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if the company demonstrates a healthy improvement in revenue, profitability and debt protection metrics while maintaining its working capital intensity. Specific credit metric that could result in ratings upgrade includes 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, or any unanticipated debt-funded capex or a stretch in the working capital cycle materially impacts the company's liquidity profile. Specific credit metric that could result in ratings downgrade includes an interest cover below 3.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Textiles - Spinning</a> <a href="#">Textiles - Fabric</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

## About the company

Incorporated in 1986 by the 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 around 1,55,000 spindles, comprising 97,500 ring spindles, 1,944 open-end rotors and 2,208 vortex positions along with a weaving capacity of 616 air jet looms. It produces cotton yarn, poly-cotton yarn and poly-viscose yarn, which are mainly used for captive consumption for greige fabric.

**Key financial indicators (audited)**

PVTL, Standalone	FY2023	FY2024	H1 FY2025*	H1 FY2024*
<b>Operating income</b>	980.5	979.2	475.0	478.0
<b>PAT</b>	27.2	14.3	7.3	5.3
<b>OPBDIT/OI</b>	10.6%	9.9%	10.1%	9.8%
<b>PAT/OI</b>	2.8%	1.5%	1.5%	1.1%
<b>Total outside liabilities/Tangible net worth (times)</b>	1.3	1.4	-	-
<b>Total debt/OPBDIT (times)</b>	3.1	3.9	-	-
<b>Interest coverage (times)</b>	3.5	2.6	3.0	2.8

Source: Pee Vee Textiles Limited, 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

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	
			Jan 8, 2025	Dec 7, 2023	Jul 7, 2023	Aug 11, 2022	Sep 16, 2021	May 27, 2021
1 Fund-based Working Capital Facilities	Long Term	135.00	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Term Loans	Long Term	176.65	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3 Stand by Line of Credit	Long Term	7.00	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4 Non-Fund based Working Capital Facilities	Short Term	50.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5 Unallocated Limits	Long Term	-	-	-	-	-	-	[ICRA]A- (Stable)
6 Unallocated Limits	Short Term	106.35	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple
Long-term fund-based – Term Loan	Simple
Long-term Non-fund based – Working Capital	Very Simple
Short-term Non-fund based – Working Capital	Very Simple
Unallocated Limits	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	Fund-based Working Capital Facilities 1	-	-	-	20.00	[ICRA]A- (Stable)
NA	Fund-based Working Capital Facilities 2	-	-	-	10.00	[ICRA]A- (Stable)
NA	Fund-based Working Capital Facilities 3	-	-	-	20.00	[ICRA]A- (Stable)
NA	Fund-based Working Capital Facilities 4	-	-	-	60.00	[ICRA]A- (Stable)
NA	Fund-based Working Capital Facilities 5	-	-	-	25.00	[ICRA]A- (Stable)
NA	Stand by Line of Credit	-	-	-	7.00	[ICRA]A- (Stable)
NA	Term Loan 1	FY2016	-	FY2031	51.00	[ICRA]A- (Stable)
NA	Term Loan 2	FY2021	-	FY2029	15.00	[ICRA]A- (Stable)
NA	Term Loan 3	FY2019	-	FY2027	7.20	[ICRA]A- (Stable)
NA	Term Loan 4	FY2017	-	FY2030	72.60	[ICRA]A- (Stable)
NA	Term Loan 5	FY2018	-	FY2026	5.00	[ICRA]A- (Stable)
NA	WCTL – GECL 1	FY2022	-	FY2026	2.30	[ICRA]A- (Stable)
NA	WCTL – GECL 2	FY2022	-	FY2026	3.05	[ICRA]A- (Stable)
NA	WCTL – GECL 3	FY2022	-	FY2028	20.50	[ICRA]A- (Stable)
NA	Non Fund-based Working Capital Facilities 1	-	-	-	5.00	[ICRA]A2+
NA	Non Fund-based Working Capital Facilities 2	-	-	-	10.00	[ICRA]A2+
NA	Non Fund-based Working Capital Facilities 3	-	-	-	5.00	[ICRA]A2+
NA	Non Fund-based Working Capital Facilities 4	-	-	-	30.00	[ICRA]A2+
NA	Unallocated Limits	-	-	-	106.35	[ICRA]A2+

Source: Pee Vee Textiles Limited

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

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

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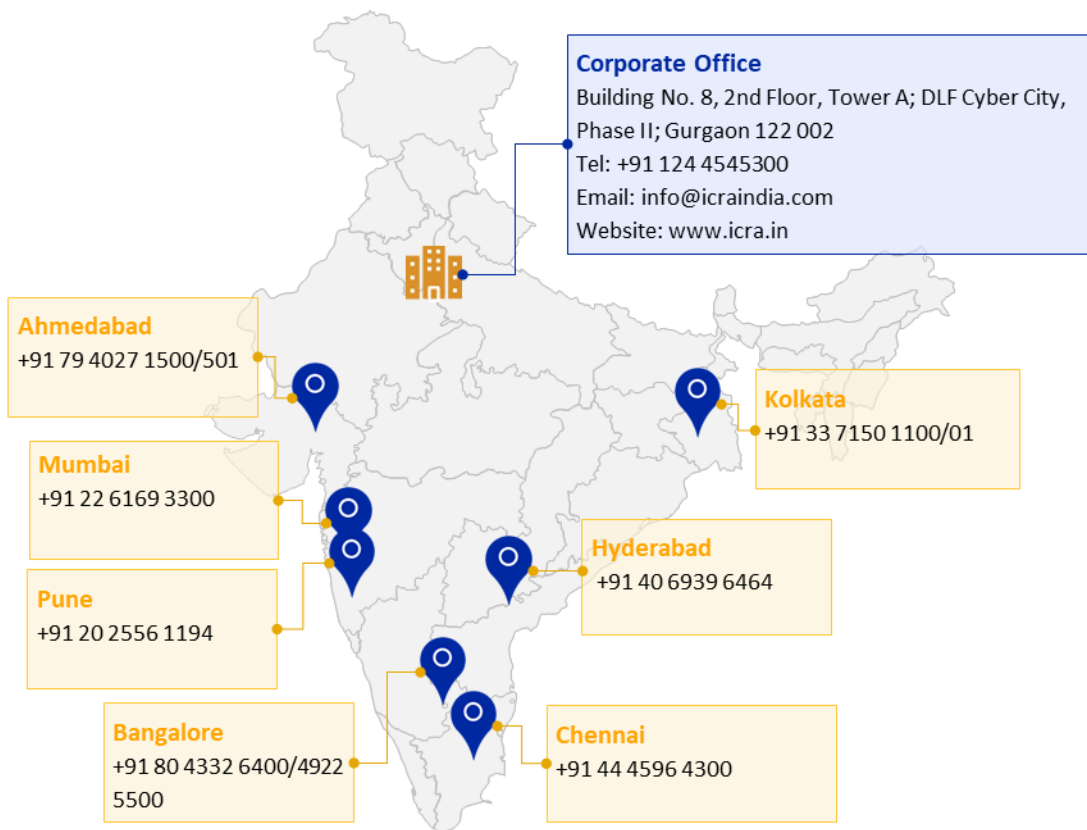
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