

April 17, 2023

Paramount Textile Mills Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Term Loan	21.16	5.80	[ICRA]BBB(Stable); reaffirmed
Long -term – Fund-based- Cash Credit	12.00	30.00	[ICRA]BBB(Stable); reaffirmed
Short-term –Non fund Based	9.00	3.00	[ICRA]A3+; reaffirmed
Long-term – Unallocated	-	3.36	[ICRA]BBB (Stable); reaffirmed
Total	42.16	42.16	

*Instrument details are provided in Annexure-1

Rationale

The rating action considers the expected steady operational and financial performances of Paramount Textile Mills Private Limited (PTMPL) in the near-to-medium term. The company reported a slight growth in revenues in the FY2023 (including the Group company Shree Sarvaloka Textiles Private Limited [SSTPL]). PTMPL's operational profile continues to be strong, as reflected by its established position among the renowned global brands and value retailers. ICRA derives comfort from the strong operational profile along with the regular capex undertaken for capacity expansion, which has facilitated healthy operating margins. This, in turn, has helped the company maintain strong return metrics (return on capital employed in the range of 20-30% in the last few years) as well as comfortable capitalisation metrics over the years. Going forward, the operating margins are expected to be supported to an extent by the recent captive solar power generation capacity additions. With prepayment of term debt to an extent, PTMPL's credit profile is expected to improve. Given the expected debt-funded capital expenditure in SSTPL as well as PTMPL, ICRA expects the coverage metrics to moderate although the same are still expected to remain at comfortable levels.

However, the ratings are constrained on account of the expansion project of the spinning unit in SSTPL with focus on backward integration, which commissioned operations on January 27, 2023. For the said project, PTMPL has extended corporate guarantee to the extent of the term loan availed (sanctioned Rs. 65.50 crore and availed Rs.58.50 crore). PTMPL also extended Rs.30-crore support to the spinning unit through its investment company in the form of Inter Corporate Deposits. The purpose of this unit is to manage the processing charges and protecting the quality of the product. The new unit will also be supplying the finished product to PTMPL. Any delays in the ramp-up of operations at SSTPL could lead to further funding support from PTMPL. The achievement of desired operating parameters for the said investment is yet to be seen and remains a key monitorable. The ratings also remain constrained by the vulnerability of PTMPL's profitability to volatility in cotton yarn prices, competition from other domestic and international suppliers, along with high customer and geographical concentration risks. Reliance on exports also makes it vulnerable to demand trends in the key export markets and to the foreign exchange fluctuation risk.

The Stable outlook reflects ICRA's expectation that PTMPL will maintain healthy debt coverage metrics and an adequate liquidity profile.

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

Comfortable capital structure and coverage indicators – PTMPL's financial profile remains comfortable, with its conservative capital structure and adequate coverage indicators. The company's dependence on external debt has reduced in the recent past, driven by the growth in earnings from operations, which has resulted in the expected total debt to operating profits improving to 1 time in FY2023 on a standalone basis. However, on a consolidated basis, given the debt-funded spinning project and low revenues and cash accruals, the coverage metrics would moderate with expected Debt/OPBDITA of 4.0 times and interest coverage of 10.2 times in FY2023. Going forward, the debt coverage metrics are likely to moderate further with increase in repayment obligations.

Credit challenges

Ramp-up yet to be achieved in spinning project – The operations at the spinning unit at SSTPL were commissioned on January 27, 2023. However, the spinning unit is running with ~60% of capacity of 25,536 spindles and full operations are yet to be achieved. Given the term loan repayment obligations from July 2023, any delay in ramp-up of operations may lead to lower earnings, which will result in increased dependency on promoter's/group company's support.

Geographical and customer concentration risks – PTMPL continues to derive most of its revenues from exports to the US (~40% of total exports) and to Israel (~30% of total exports), resulting in vulnerability to demand trends in the key market. Besides, the company's customer concentration risk is high, with its top five customers accounting for ~70% of its sales in FY2021.

Vulnerability of profitability to volatilities in cotton yarn prices and fluctuations in forex rates – PTMPL's profitability is vulnerable to volatility in cotton yarn prices. As PTMPL derives more than 80% of its revenues from exports with limited dependence on imported raw materials, its profitability is exposed to fluctuations in forex rates. However, the company's demonstrated track record of maintaining stable profitability, despite volatilities in cotton and cotton yarn prices, provides comfort. Further PTMPL's profitability is supported by export incentives. Besides, these incentives support sales growth by making domestic textile manufacturers competitive in the global market. This exposes the exporters' profitability to any adverse changes in the policies.

Liquidity position: Adequate

PTMPL's liquidity position remains adequate, supported by steady earnings and unutilised lines of credit. The free cash and bank balances and the buffer available in the working capital limits utilised together stood at ~Rs.49 crore as on March 31, 2023. The Group has repayment obligations of ~Rs.5 crore for FY2024 and ~Rs.10 crore for FY2025 and the cash accruals are expected to be sufficient to meet the same. The company's accruals from operations are expected to be comfortable at around Rs.25 crore per annum in the medium term, supported by healthy revenues and earnings expected for the entity. The average utilisation of fund-based limits of PTMPL stood at 40% of the sanctioned limits for the last 12 months ending in March 2023.

Rating sensitivities

Positive factors – ICRA could upgrade PTMPL's ratings if there is a substantial growth in its revenues and improvement in its profitability and liquidity. Further, timely ramp-up of operations at the Group company would be a key factor for a rating

upgrade. Specific credit metrics that could lead to an upgrade of PTMPL's ratings include DSCR of more than 2.5 on a sustained basis.

Negative factors – Pressure on PTMPL's ratings could arise if there is a decline in revenues and profitability, resulting in lower cash flows on a sustained basis. Any delay in ramp-up of operations, or a deterioration in the working capital cycle impacting the company's liquidity position could also be a trigger for ratings downgrade. Specific credit metrics that could lead to a downgrade of PTMPL's ratings include an interest cover below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry -Fabric
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 of 7.8 lakh metres per month for fabrics, 1.0 lakh metres per annum of technical textiles and a capacity of 8.20 sets for the made-ups division. PTMPL exports its product to various countries like the US, Israel, Germany, Portugal among others. The company also contracts basic cotton fabrics from its trusted vendors for the run-of-mill varieties that it finds value in sourcing. Shree Sarvaloka Textiles Private Limited was incorporated in Madurai in 2019 and is involved in job work such as stitching and acts as a commission agent for its group companies. SSTPL has set up a new spinning mill unit with a capacity of 25,536 spindles, commissioned in January 2023.

Key financial indicators (audited)

Consolidated (PTMPL and SSTPL)	FY2021	FY2022
Operating Income (Rs. crore)	277.5	270.9
PAT (Rs. crore)	15.0	13.3
OPBDITA/OI (%)	9.8%	8.9%
PAT (%)	5.4%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5
Total Debt/OPBDITA (times)	1.5	1.4
Interest Coverage (times)	6.0	7.1
DSCR	2.6	2.5

Source: Company and ICRA Research

PTMPL	FY2021	FY2022
Operating Income (Rs. crore)	271.1	258.8
PAT (Rs. crore)	12.6	11.1
OPBDITA/OI (%)	8.9%	7.8%
PAT (%)	4.7%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.6
Total Debt/OPBDITA (times)	1.6	1.6
Interest Coverage (times)	5.3	6.1
DSCR	2.4	2.2

Source: PTMPL

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; DSCR: Debt Service Coverage Ratio

Status of NON-COOPERATION with previous CRA: The company has an outstanding rating of ACUITE BB+ /ACUITE A4+ ISSUER NOT COOPERATING as on March 22, 2023, with ACUITE Ratings.

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 March (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2020	Date & Rating in FY2019
					April 17, 2023	Mar 11, 2022	-	-
1	Term Loans	Long-term	5.80	5.47	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Cash credit	Long-term	30.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
3	Non fund based	Short term	3.00	-	[ICRA]A3+	[ICRA]A3+	-	-
4	Unallocated	Long Term	3.36	-	ICRA] BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Term Loan	Simple
Long -term – Fund Based	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, is available on ICRA's website: [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2022-FY2023	NA	FY2023-FY2028	5.80	[ICRA]BBB (Stable)
NA	Long term fund based	-	NA	-	30.00	[ICRA]BBB (Stable)
NA	Short term Non fund based	-	NA	-	3.00	[ICRA]A3+
NA	Unallocated Limits	-	NA	-	3.36	[ICRA]BBB (Stable)

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis

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

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

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