

May 15, 2019

Payal International Limited: Rating reaffirmed; Removed from ‘Issuer not cooperating’ category

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Short Term – Fund-based	18.00	12.30	[ICRA]A4; reaffirmed; removed from ‘Issuer Not Cooperating’
Short Term – Unallocated	-	5.70	[ICRA]A4; reaffirmed; removed from ‘Issuer Not Cooperating’
Total	18.00	18.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has removed its earlier rating of [ICRA]A4 from the ‘ISSUER NOT COOPERATING’ category as Payal International Limited (PIL) has now submitted its ‘No Default Statement’ (NDS), which validates that the company is regular in meeting its debt servicing obligations. The company’s rating was moved to the ‘ISSUER NOT COOPERATING’ category in November 2018.

The rating reaffirmation takes into account the degrowth in PIL’s revenue in FY2018 and decline in its operating margin relative to FY2017. Moreover, its performance remained sluggish in FY2019. The profitability has been adversely impacted due to subdued demand from its key overseas markets, which led to competitive pricing resulting in lower margins. Further, PIL’s operations are highly working capital intensive due to its long receivable turnover period and large inventory holding requirements resulting in stretched liquidity position as reflected by high working capital intensity of 201% in FY2018. The rating is constrained on account of its vulnerability to foreign exchange fluctuation risk with a bulk of its revenues derived from exports.

The rating, however, factors in the extensive experience of PIL’s promoters in the textile industry, its established relations with key customers and its wide network of suppliers and customers.

Outlook: Not applicable

Key rating drivers

Credit strengths

Extensive experience of promoters in the textile industry – The company’s promoters have more than three decades of experience in the trading business. They have established relations with the customers and suppliers, which help in managing the business efficiently.

Well-established clientele network – PIL developed a wide network of suppliers and customers through its elongated presence in the industry. The company procures the finished products from the small-scale industries based in Kashmir, Gwalior, Varanasi and Bhadohi, and exports the same. The client base includes international retailers and wholesalers situated in Europe, Middle East and South East Asian countries.

Credit challenges

Weak financial profile along with small scale of operations – PIL has a modest scale of operations as reflected by an operating income (OI) of Rs. 9.5 crore in FY2018, which decreased from Rs. 15.7 crore in FY2017 owing to subdued demand from the overseas market. The operating profit margin declined to -36.2% in FY2018 from 1.6% in FY2017. The debt coverage indicators remained weak with a DSCR of 1.43 times and OPBDITA/Interest of -1.82 times in FY2018.

Working capital intensive operations – PIL’s operations are highly working capital intensive with large inventory holding requirements resulting in stretched liquidity position. Further, the company extends a credit period of ~90-180 days to its customers, which increases the working capital cycle. In FY2018, PIL exhibited high working capital intensity with NWC/OI of ~201%.

Vulnerability of profitability to any adverse fluctuation in foreign exchange rate – The company’s margins are primarily affected by the foreign exchange fluctuation as ~89% of PIL’s sales are denominated in foreign currency. Any adverse movement in the exchange rate could have an adverse impact on its margins. However, PIL avails bill discounting facilities for its exports and receives the payment in Indian rupee, which mitigates the forex risk to an extent.

Intense competition limits the bargaining power with customers – Being a carpet exporter, the entry barriers in the business remain low. Hence, PIL faces stiff competition from other organised as well as unorganised players, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Liquidity position

PIL exhibits a stretched liquidity position with large receivables outstanding and high inventory levels as on year end. The company’s fund flow from operations remained negative in FY2018. The average working capital utilisation level remained at ~44% during December 2017 to March 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Established in 1983, PIL is involved in the trading of hand-knotted carpets, floor coverings, etc. PIL is a closely-held company promoted by Mr. Akash Mittal and his family members. It exports carpets to retailers and wholesalers in Europe, Middle East and South East Asian countries.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	15.7	9.5
PAT (Rs. crore)	-0.8	0.9
OPBDIT/OI (%)	1.6%	-36.2%
RoCE (%)	0.9%	8.8%
Total Debt/TNW (times)	1.2	0.7
Total Debt/OPBDIT (times)	88.3	-3.6
Interest Coverage (times)	0.2	-1.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019 November 2018	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 January 2017
1 Fund-based Limits	Short Term	12.30	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4
2 Unallocated Limits	Short Term	5.70	-	[ICRA]A4	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short Term – Fund-based	-	-	-	12.30	[ICRA]A4
NA	Short Term – Unallocated	-	-	-	5.70	[ICRA]A4

Source: PIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ANALYST CONTACTS

K. Ravichandran

+91-44-45364301

ravichandran@icraindia.com

Manish Ballabh

+91-124-4545812

manish.ballabh@icraindia.com

Vipin Jindal

+91-124-4545355

vipin.jindal@icraindia.com

Geetika Mamtani

+91-124-4545832

geetika.mamtani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents