

## Press Release

Paramount Textile Mills Private Limited

May 03, 2019

### Rating Assigned



|                                     |                               |
|-------------------------------------|-------------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 33.00 Cr.                 |
| <b>Long Term Rating</b>             | ACUITE BBB- / Outlook: Stable |
| <b>Short Term Rating</b>            | ACUITE A3                     |

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 33.00 crore bank facilities of PARAMOUNT TEXTILE MILLS PRIVATE LIMITED (PTPL). The outlook is '**Stable**'.

PTPL, incorporated in 1979, is into the business of manufacturing of grey fabric home textiles and made-ups. It has manufacturing capacity of about 72 lakh meters per annum and is based out of Madurai (Tamil Nadu). Majority of its revenues are from exports spread across USA, Israel, Germany, Italy, Poland and Portugal, among others.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of PTPL to arrive at this rating.

## Key Rating Drivers

### Strengths

- **Experienced management and established track record of operations**

PTPL was established in 1979 by Ms. Lakshmi Murugesan, Mr. Ramu Murugesan and Mr. T. Murugesan. Currently, the operations are managed by the Directors, Mr. M. Ramu and Mr P. Kondalaraju. Promoters' presence in the industry for nearly four decades and presence across the geographies supported in maintaining its business risk profile though volatile marginally in FY2018. The company reported revenues of Rs.140.05 crore for FY2019 (Provisional) as against Rs.92.87 crore for FY2018 and Rs.117.94 crore for FY2017. Acuite believes that regular capex for modernisation and enhancing the capacity are expected to support in improvement of its business risk profile over the medium term.

- **Comfortable financial risk profile**

Financial risk profile is comfortable marked by comfortable gearing (debt to equity), moderate total outside liabilities to total net worth (TOL/TNW) and comfortable debt protections metrics. Gearing is comfortable at 1.30 times as on 31 March, 2018 which is expected to improve to about 1.00 time as on 31 March, 2019. TOL/TNW is moderate at 2.38 times as on 31 March, 2018. Net worth is moderate at Rs.25.60 crore as on 31 March, 2018 as against Rs.21.81 crore as on 31 March, 2017. Of the total debt of Rs.33.29 crore as on 31 March, 2018 long term debt constitutes Rs.7.21 crore and short term debt of Rs.23.12 crore. PTPL is envisaging moderate capex of about Rs.7.00 crore in FY2020 to enhance the weaving capacity partly funded by bank debt. Its debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 2.43 times and 0.18 times respectively in FY2018. It has reported cash accruals of Rs.5.9 crore in FY2018; its accruals are estimated around Rs.10 crore over the medium term against which its repayment obligations are about Rs.3.0 crore. Acuite believes that with expected improvement in revenues and moderate accruals, the financial risk profile is expected to improve over the medium term.

## Weaknesses

- **Working capital intensive operations**

The operations of PTPL are working capital intensive in nature marked by Gross Current Assets (GCA) of 174 days in FY2018 compared to 126 days in FY2017; high on account of deferral of orders in FY2018 though receivables and inventory days are moderate at about 60-80 days. High GCA and low promoter funds in working capital operations lead to low current ratio at about 1.00 time over the past three years through FY2018. Acuite believes that operations are expected to improve with improving situation in overseas market over the medium term.

- **Susceptible to changes in input prices and foreign exchange rate**

Operating margins are susceptible to changes in cotton and yarn prices which are highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market and government regulations of changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain. Further, the profitability is also susceptible to the changes in the forex rate. However, operating margins are insulated partly owing to moderate inventory levels longstanding relationship with the supply chain resulted in improving operating margins from about 8 per cent in FY2016 to about 10.4 per cent in FY2018.

### Liquidity Position:

Liquidity of PTPL is comfortable marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs.5.90 crore in FY2018. Its expected cash accruals are estimated around Rs.8-10 crore over the medium term against which its repayment obligations are about Rs.3-3.5 crore per annum. PTPL is envisaging a moderate capex of about Rs.7.0 crore in FY2020 to modernise and automate the plant. Its operations are moderately working capital intensive with GCA of 174 days in FY2018; support from creditors and efficient realisation lead to moderate utilisation of its bank lines at about 70 per cent. Its current ratio is low at about 1.00 time over the past three years through FY2018. Acuite believes that moderate accruals to repayment obligations and cushion in its bank lines are expected to support the liquidity over the near term.

### Outlook: Stable

Acuite believes that PTPL will maintain 'Stable' outlook over the medium term from its promoters industry experience. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining its profitability and capital structure and improving its current ratio. Conversely, the outlook may be revised to 'Negative' in case of significant stretch in its working capital management or higher-than-expected debt-funded capital expenditure plan leading to deterioration in its financial risk profile and liquidity.

### About the Rated Entity - Key Financials

|                               | Unit    | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 92.87         | 117.94        | 98.60         |
| EBITDA                        | Rs. Cr. | 9.63          | 9.61          | 8.26          |
| PAT                           | Rs. Cr. | 3.81          | 2.66          | 2.55          |
| EBITDA Margin                 | (%)     | 10.37         | 8.15          | 8.38          |
| PAT Margin                    | (%)     | 4.10          | 2.25          | 2.58          |
| ROCE                          | (%)     | 15.92         | 16.54         | 37.19         |
| Total Debt/Tangible Net Worth | Times   | 1.30          | 1.40          | 0.82          |
| PBDIT/Interest                | Times   | 2.43          | 3.17          | 2.92          |
| Total Debt/PBDIT              | Times   | 2.83          | 3.02          | 1.74          |
| Gross Current Assets (Days)   | Days    | 174           | 126           | 99            |

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

## Rating History (Upto last three years)

Not Applicable

## \*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate    | Maturity Date  | Size of the Issue (Rs. Cr.) | Ratings/Outlook      |
|------------------------|------------------|----------------|----------------|-----------------------------|----------------------|
| Cash Credit*           | Not Applicable   | Not Applicable | Not Applicable | 7.00*                       | ACUITE BBB- / Stable |
| Term loans             | Not Applicable   | Not Applicable | Not Applicable | 4.50                        | ACUITE BBB- / Stable |
| Cash Credit            | Not Applicable   | Not Applicable | Not Applicable | 5.00                        | ACUITE BBB- / Stable |
| Letter of credit#      | Not Applicable   | Not Applicable | Not Applicable | 7.50#                       | ACUITE A3            |
| FBN/FBP/FBD/PSFC/FBE   | Not Applicable   | Not Applicable | Not Applicable | 9.00                        | ACUITE A3            |

\*Includes Sub-limit of Rs.3.00 crore for LCBD

#Includes Sub-limit of Rs. 2.00 crore for BG

## Contacts

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## About Acuite Ratings & Research:

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