

Press Release

Paramount Textile Mills Private Limited

October 05, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.33.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Upgraded)
Short Term Rating	ACUITE A3+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.33 crore bank facilities of Paramount Textile Mills Private Limited (PTPL). The outlook is '**Stable**'.

The rating upgrade is on account of a significant increase in revenue of the company driven by volume growth in sales of fabric and made-ups coupled with improvement in profit levels, thereby leading to higher cash accruals. The rating upgrade also factors in the healthy order book position providing adequate revenue visibility. The rating continues to factor in the robust financial risk profile of the company marked by moderate network, comfortable gearing and strong debt protection metrics.

About the company

Incorporated in 1979, Paramount Textile Mills Private Limited (PTPL) is a Madurai based company, which is engaged in manufacturing and export of grey fabrics and made-ups. Currently, the company is headed by Mr. M. Ramu. The company has a capacity of 72 lacs meters for weaving division and a capacity of 8.20 sets for made-ups division. PTPL exports its product to various countries like USA, Israel, Germany, Portugal, to name a few.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of PTPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations**

Established in 1979, Paramount Textile Mills Private Limited (PTPL) has a long operational track record of more than four decades in the textiles industry. Acuité believes the long track record has helped PTPL to establish a healthy relationship with suppliers and reputed customers and ensure repeat orders.

- **Significant growth in revenue and healthy order book position**

The company has improving revenue trend marked by operating income of Rs.185.46 Cr in FY2020 (provisional) as compared to revenues of Rs.136.34 Cr in FY2019 and Rs.92.87 Cr in FY2018, thereby registering CAGR of 41.31 per cent over two years. The growth in revenue is on account of volume growth in sales of fabric and made-ups driven by increased demand. In addition to this, the company has a healthy order book position as on date to the tune of Rs.85.13 Cr. Acuité believes that the healthy order book position of the company provides comfortable revenue visibility over the medium term.

- **Healthy financial risk profile**

The company's healthy financial risk profile is marked by moderate network, comfortable gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.40.18 Cr as on March 31, 2020 (provisional) from Rs.31.33 Cr as on March 31, 2019. Gearing of the company stood comfortable at 0.87 times as on March 31, 2020 (provisional) as against 0.63 times as on March 31, 2019. The debt of Rs.34.76 Cr consists of working capital funding from the bank of Rs.19.31 Cr, term loan of Rs.10.40 Cr and current maturity of a term

loan of Rs.5.05 Cr as on March 31, 2020 (provisional). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.75 times as on March 31, 2020 (provisional) as against 1.56 times as on March 31, 2019. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 4.96 times as on March 31, 2020 (provisional) and Debt Service Coverage Ratio at 2.40 times as on March 31, 2020 (provisional). PTPL has undertaken two capex plans to set up a windmill and to add 60 looms to its production facility. The cost to set up windmill was Rs.5.31 Cr, which was funded from Rs.4.05 Cr of term loan and Rs.1.26 Cr of promoter's contribution. The cost of 60 looms was around Rs.5.20 Cr, which was funded from Rs.3.97 Cr of term loan and Rs.1.23 Cr of promoter's contribution. The newly added windmill was fully operational since September, 2020. Acuité believes that going forward the financial risk profile of the company will remain healthy backed by steady accruals and no major debt-funded capex plans.

Weakness

- **Moderate working capital management**

The moderate working capital management of the company is marked by Gross Current Assets (GCA) of 108 days on 31st March 2020 (provisional) as compared to 92 days on 31st March 2019. The debtor period stood modest at 50 days in 31st March 2020 (provisional) as compared to 35 days in 31st March 2019. Further, the inventory holding is modest at 46 days in 31st March 2020 (provisional) as compared to 51 days as on 31st March 2019. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

- **Customer concentration risk**

PTPL is exposed to customer concentration risk as the major sources of the revenue are top four customers, namely, Boll & Branch, Offis Textiles Ltd, Koppermann & Co. and Plurima Companhia De Transaccoes. The company is generating around 60 per cent of the revenue from these four companies. Acuité believes that any customer concentration risk exposes the entity to risks related to changes in the requirements of the customers.

Rating Sensitivity

- Sustainability in their growth in scale of operations while improving profitability margin
- Improvement in working capital management
- Reduction in order flow

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate, marked by sufficient net cash accruals of Rs.12.38 Cr as on March 31, 2020 (provisional) as against long term debt repayment of Rs.2.95 Cr over the same period. The current ratio stood comfortable at 1.23 times as on March 31, 2020 (provisional) as compared to 1.12 times as on March 31, 2019. The fund based limit remains utilised at 80 per cent over the twelve months ended May, 2020. The company has neither availed loan moratorium nor applied for any additional COVID loan. The cash and bank balances of the company stood at Rs.1.21 Cr as on March 31, 2020 (provisional) as compared to Rs.0.36 Cr as on March 31, 2019. However, the working capital management of the company is moderate marked by Gross Current Assets (GCA) of 108 days in 31st March 2020 (provisional) as compared to 92 days in 31st March 2019. Going forward, Acuité believes the liquidity of the company will remain adequate marked by steady cash accruals and healthy network base.

Outlook: Stable

Acuité believes that the outlook on Paramount Textile Mills Private Limited will remain 'Stable' over the medium term on account of the long track record of operations, strong business risk profile and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins

from the current levels while improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	185.46	136.34
PAT	Rs. Cr.	8.86	5.75
PAT Margin	(%)	4.78	4.21
Total Debt/Tangible Net Worth	Times	0.87	0.63
PBDIT/Interest	Times	4.96	3.74

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-May-2019	Cash Credit	Long Term	7.00	ACUITE BBB-/Stable (Assigned)
	Term Loans	Long Term	4.50	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	7.50	ACUITE A3 (Assigned)
	FBN/FBP/FBD/PSFC/FBE	Short Term	9.00	ACUITE A3 (Assigned)

*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 (Upgraded)
Term Loans	31st January, 2019	11.35%	29th May, 2021	4.50	ACUITE BBB-/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3+ (Upgraded)
FBN/FBP/FBD/P SFC/FBE	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3+ (Upgraded)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in Kaustav Saha Senior Rating Analyst- Rating Operations Tel: 033-6620-1211 kaustav.saha@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research

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