

Press Release

Parvathi Dyeing

May 03, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 18.00 crore bank facilities of PARVATHI DYEING (PD). The outlook is '**Stable**'.

Tamil Nadu based, PD is engaged in fabric dyeing. The unit was established in 1985 by Mr. Loganathan and his wife Mrs. L Nachammal. Currently, the day to day operations are managed by his son, Mr. Parmeshwaran and his wife, Mrs. Rajeshwari.

Analytical Approach

For arriving at the rating, Acuité has considered the standalone business and financial risk profile of PD.

Key Rating Drivers

Strengths

- Established track record and experienced promoters**

PD was established in 1985 by, Mr. Loganathan. He is supported by second generation, Mr. Paramesh Kumar and Mrs. Rajeshwari. Mr. Loganathan possess industry experience of over three decades in textile industry, while the other promoters have more than a decade of experience in the said industry. The company has been able to establish long term relations with suppliers and customers through this company and its other group companies, Bhuvaneshwari Cotspin India Pvt. Ltd. and Bhuvaneshwari Tex.

- Moderate financial risk profile albeit healthy net worth base**

PD's financial risk profile is moderate marked by healthy net worth, moderate debt protection metrics and coverage indicators of the company. The tangible net worth of the company stood at Rs. 19.40 crore as on 31 March, 2018 as against Rs.15.84 crore as on 31 March, 2017. The debt to equity ratio stood at 0.57 times as on 31 March, 2018 as against 0.42 times in the previous year. The total debt of Rs.11.03 crore as on 31 March, 2018 mainly comprises term loan of Rs.6.76 crore, working capital borrowing of Rs.3.97 crore and unsecured loan of Rs.0.30 crore.

The coverage indicators are healthy marked by Interest Coverage Ratio (ICR) which stood at 9.40 times for FY2018 as against 8.88 times for FY2017. Debt Service Coverage Ratio (DSCR) stood healthy at 5.12 times for FY2018 as against 2.84 times for FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.34 times as on 31 March, 2018 as against 1.23 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.53 times as on 31 March, 2018 as against 0.62 times as on 31 March, 2017. Going forward, Acuité expects the financial risk profile to improve marginally in the absence of major debt funded capex plans and backed by moderate net cash accruals.

Weaknesses

- **Moderate working capital nature of operations**

PD operates in a moderate working capital nature of operations marked by high Gross Current Asset (GCA) of 167 days in FY2018 compared to 150 days in FY2017. The GCA days are mainly dominated by high debtor days of 140 in FY2018 compared to 130 in FY2017. The average cash credit utilisation for six months ending November 2018 stood at ~91 per cent. Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Intense competition in textile industry**

PD is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organised and unorganised players in domestic market and other nations that offer lower production costs ease of doing business and cheap manpower.

Liquidity Position:

PD has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.00-6.00 crore during the last three years through 2016-18, while its maturing debt obligations were below Rs. 1.50 crore over the same period. The cash accruals of the company are estimated to remain around above Rs. 6.00 crore during 2019-21, while its repayment obligations are nil. The company's operations are expected to be below Rs. 1.50 crore. The working capital cycle is moderate marked by Gross Current Assets (GCA) of 167 days in FY 2018. The company's bank limit utilisation stood at ~90 percent for six months ending November, 2018. The current ratio of the company stood modest at 1.03 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and low repayments over the medium term.

Outlook: Stable

Acuite believes that PD will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	45.55	41.78	33.71
EBITDA	Rs. Cr.	6.27	4.54	5.72
PAT	Rs. Cr.	3.84	2.60	3.05
EBITDA Margin	(%)	13.76	10.86	16.96
PAT Margin	(%)	8.42	6.23	9.06
ROCE	(%)	17.14	14.26	39.08
Total Debt/Tangible Net Worth	Times	0.57	0.42	0.57
PBDIT/Interest	Times	9.40	8.88	5.13
Total Debt/PBDIT	Times	1.69	1.43	1.34
Gross Current Assets (Days)	Days	167	150	144

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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	4.00	ACUITE BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.30	ACUITE BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.20	ACUITE BB/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.30	ACUITE BB/ Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A4+ (Assigned)

*Sub-limit Rs. 3.20 crore FLC

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About Acuité Ratings & Research:

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