

Press Release

Pongalur Pioneer Textiles Private Limited

January 13, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité 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**) on the Rs. 40.00 crore bank facilities of PONGALUR PIONEER TEXTILES PRIVATE LIMITED (PPTL). The outlook is '**Stable**'.

Tamil Nadu based, PPTL was incorporated in 1990, is promoted by Mr. Selvapathy Venkataswamynaidu. It is engaged in manufacture of combed warp cotton yarn in fine counts (60's to 120's). It commenced operations in 1992 with a spindlegage of 3000 spindles and currently has an installed capacity of 116,016 spindles.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PPTL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced Management and established track record of the company:**

PPTL was promoted by Mr. Selvapathy Venkataswamynaidu, Managing Director in 1990, Mr. Selvapathy, has over four decades of experience in textile industry. The day to day operations are managed by his son Mr. Aravind Selvapathy, Director, who has around two decades of experience in textile industry. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers for over three decades. The key customers of the company include names like JV Enterprise, Kamla Mills India, amongst others with no major concentration in revenues. On the back of the stable and repeat orders by the key customers, the revenues have seen a compound annual growth rate (CAGR) of about 8 per cent over the past three through FY2019 at Rs.125.07 crores in FY2019.

Acuité believes that the business profile of PPTL will continue to benefit from its promoter experience and established track record of operations.

- **Healthy Financial Risk Profile**

PPTL has followed a moderate financial policy in the past, the same is reflected through its peak gearing levels of 0.65 times as on March 31, 2017 (over the past three years). The leverage levels currently stood at 0.63 times as on March 31, 2019. The gearing however is expected to remain stable below 1 times over the near to medium in absence of any capex plans of the company. The financial risk profile of PPTL is healthy marked by modest net worth, comfortable gearing and healthy debt protection measures. The tangible net worth stood at Rs. 67.68 crore as on 31 March, 2019 as against Rs. 59.77 crore as on 31 March, 2018. The gearing stood low at 0.63 times as on 31 March, 2019 as against 0.53 times as on 31 March, 2018 and 0.65 times in the previous year. The total borrowings of Rs. 42.75 crore as on 31 March, 2019 comprises of long term borrowings to the tune of Rs. 19.75 crore, unsecured loans of Rs. 6.67 Crore and short term borrowings of Rs. 16.93 crore. The net cash accruals stood at Rs.8.30 crore for FY2019 against debt repayment of ~Rs. 4.76 crore. The net cash accruals are expected to remain in the range of Rs. 8.00-12.00 crore over the near to medium term against repayment obligations of ~Rs. 3.00-5.00 crore. The interest coverage ratio (ICR) stood at 2.98 times in FY2019 as against 2.38 times in FY2018. The DSCR stood at 1.58 times in FY2019 against 1.11 times in FY2018. The total outside liabilities to tangible net worth stood at 1.0 times as on 31 March, 2019 as

against 1.05 times as on 31 March, 2018.

Acuité, believes that the financial risk profile will continue to remain healthy on account of its healthy revenue growth and stable operating margins and in absence of capex plans.

Weaknesses

- **Moderately intensive working capital cycle**

PPTL's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 131 days in FY2019 as compared to 123 days in FY2018. The GCA days are mainly dominated by inventory holding period, the company procures cotton between September to April due to which its inventory holding is higher as on March 31, 2019. Inventory holding period stood at 107 days in FY2019, an increase from 94 days in FY2018 and 79 days in FY2017. The collection period has remained in the range of 15 to 25 days from FY2017 to FY2019. The company bank limit utilisation for the past six months ended September 30, 2019 stood at ~80 percent and it availed warehouse receipt financing to bridge financing gaps during its procurement season.

Acuité believes that efficient management of its working capital cycle will remain crucial to the company.

- **Susceptible to volatility in raw material prices:**

The main raw material purchased by the company is cotton. Hence, the margins are susceptible to changes in cotton prices. Cotton being an agricultural commodity, the availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well. While the company has been able to maintain healthy operating margins its EBITDA marginally declined over the past three years to 11.40 percent for FY2019 as against 11.69 percent for FY2018 and 12.27 percent in FY2017. PPTL is engaged in manufacture of fine counts, which provides some cushion from raw material price fluctuations.

Acuité believes that PPTL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the market.

Liquidity Position: Adequate

PPTL maintains adequate liquidity position marked by net cash accruals of ~Rs. 8.3 crore in FY2019 as against long term debt obligations of Rs.4.76 crore over the same period. The company has a moderate working capital cycle marked by Gross Current Assets (GCA) of 131 days in FY2019 as compared to 123 days in FY2018. Further, the cash credit limit of the firm remained moderately utilised at 80.9 percent during the last six months ended September, 2019. The current ratio of the company stood at 1.01 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term backed by healthy net cash accruals and increasing revenues.

Rating Sensitivities

- Any significant debt funded capex undertaken by the company.

Outlook: Stable

Acuité believes PPTL 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 healthy 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 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	125.07	113.88
PAT	Rs. Cr.	3.43	2.44
PAT Margin	(%)	2.74	2.15
Total Debt/Tangible Net Worth	Times	0.63	0.53
PBDIT/Interest	Times	2.98	2.38

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

India Ratings vide its press release dated May 28, 2019 had denoted the rating of Pongalur Pioneer Textile Private Limited as Ind BB+/Stable/A4+; ISSUER NOT CO-OPERATING on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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	5.75	ACUITE BBB- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Assigned)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BBB- / Stable (Assigned)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE BBB- / Stable (Assigned)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	2.99	ACUITE BBB- / Stable (Assigned)
Term Loan IV	Not Applicable	Not Applicable	Not Applicable	2.48	ACUITE BBB- / Stable (Assigned)
Term Loan V	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BBB- / Stable (Assigned)
Term Loan VI	Not Applicable	Not Applicable	Not Applicable	0.78	ACUITE BBB- / Stable (Assigned)
Term Loan VII	Not Applicable	Not Applicable	Not Applicable	1.86	ACUITE BBB- / Stable (Assigned)
Term Loan VIII	Not Applicable	Not Applicable	Not Applicable	1.48	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.04	ACUITE BBB- / Stable (Assigned)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3 (Assigned)
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About Acuité Ratings & Research:

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