PRESS RELEASE

PRAGATI TEXTILE INDUSTRIES PRIVATE LIMITED

November 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	232.82	IRN B+	Assigned
Short Term Bank Facilities	451.80	IRN A4	Assigned
TOTAL	**684.62**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN B+ (Single B plus) to the long-term bank facilities of NPR 232.82 Mn and IRN A4 (A Four) to the short-term bank facilities of NPR 451.80 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Pragati Textile Industries Private Limited (PTIPL) remain constrained primarily due to the company's ongoing financial stress, as reflected by its delayed debt repayment in mid-April 2024[1]. The ratings also factor company's subdued operational performance, with a year-on-year revenue degrowth of ~12% in FY23, continuing with a further contraction of ~15% in FY24. Ratings also continue to factor PTIPL’s significantly leveraged capital structure, as evidenced by a high gearing ratio of 3.91x as of mid-July 2024, signaling a heavy dependence on external borrowings. Additionally, the company’s Total Debt-to-EBITDA ratio at 8.20x underscores its stretched leverage position, further accentuating a modest capitalization profile. Liquidity concerns are exacerbated by increased working capital intensity, which rose to ~73% in FY24 (from ~51% in FY23), largely driven by elongated inventory days. These factors collectively weaken the financial risk profile and liquidity position, heightening the company’s vulnerability to external shocks.

However, the ratings derive comfort from PTIPL's long operational track record of over three decades, which underpins its industry standing. The promoters’ extensive experience and the seasoned management team continue to provide strategic direction and operational stability, supported by an established and diversified sales channel that offers revenue visibility over the medium term. Going forward, the company's ability to sustain revenue growth, maintain stable operating margins, improve working capital management, and maintain comfortable capitalization/coverage indicators would remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and seasoned management team in the related field

The entity benefits from experienced promoters and a seasoned management team with extensive expertise in the textile industry and corporate management. Lalit Kumar Lohia is the Chairman of Pragati Group with over 40 years of experience in business and corporate management. The leadership team is well-versed in overseeing operations, driving strategic initiatives, and fostering industry partnerships. Their collective experience across diverse roles, including factory management

[1] Settled on June 10, 2024, however delay extended to 61 days

and production processes, strengthens the entity's ability to navigate industry challenges, capitalize on market opportunities, and sustain operational efficiency.

Positive demand outlook

The textile industry in Nepal, particularly in shirting, suiting, and knitting fabric manufacturing, benefits from several positive factors driving its growth in upcoming years. A steady recovery in domestic and export demand, driven by improving consumer preferences and enhanced global trade linkages, supports the sector's prospects. Nepal's relatively low labor costs and growing adoption of modern manufacturing techniques further enhance cost efficiency and productivity. Additionally, the proximity to large markets like India and China offers logistical advantages, while increasing awareness of sustainable and eco-friendly practices aligns with global textile trends, opening avenues for niche markets. These factors collectively strengthen the industry's outlook, particularly for well-managed firms.

Key Rating Weaknesses

Leveraged capital structure coupled with deteriorating revenue profile

PTIPL has reported subdued operational performance over the last two fiscal years ending FY24. Revenue witnessed a contraction of ~11% in FY23, further declining by ~15% in FY24. The overall gearing ratio deteriorated to 3.91x in FY24 from 3.00x in FY23, primarily due to the infusion of directors' loans. Total Debt to GCA escalated to 20.75x in FY24 from 8.22x in FY23, impacted by a negative PAT of ~NPR 20 Mn. Debt coverage indicator has also been on declining side with Interest Coverage Ratio (ICR) reduced to 1.66x in FY24 (2.83x in FY23) impacted by decreased EBITDA margin i.e., ~13.38% in FY24 against ~15.03% in FY23.

Stretched liquidity profile

PTIPL's liquidity position remains under strain, with the working capital intensity rising from ~51% in FY23 to ~73% in FY24. The increase is largely attributed to higher inventory levels, driven by declining sales. Consequently, the operating cycle extended significantly to 390 days in FY24 from 290 days in FY23, reflecting inefficiencies in managing working capital.

Exposure to price fluctuation risk in raw materials

The Nepalese textile industry faces significant exposure to price fluctuation risk and forex fluctuation risk, primarily concerning raw materials sourcing. Raw materials such as cotton, yarns, dyes, and chemicals are often imported, exposing manufacturers to currency exchange rate fluctuations. Sudden shifts in exchange rates can lead to increased costs for imported materials, impacting profit margins and overall competitiveness. Moreover, global market dynamics, such as changes in commodity prices and geopolitical factors, can further exacerbate price volatility in raw materials.

Highly competitive industry with low entry barriers

The textile industry in Nepal is characterized by minimal entry barriers, resulting in heightened competition from both organized and unorganized players at regional and national levels. The absence of significant structural impediments for new entrants intensifies competitive pressures, challenging PTIPL's ability to maintain market share and profitability in an already fragmented market.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology]

About the Company:

Incorporated in June 1991, Pragati Textile Industries Private Limited (PTIPL) operates its head office in Bishalnagar, Kathmandu, and its factory in Sunsari, Nepal. The company specializes in knitting, shirting, and suiting products. It sources 80% of its yarn from Nepalese manufacturers and purchases basic chemicals like caustic soda, soda, and salt from local vendors, while specialized chemicals are obtained from Indian manufacturers. Ownership of all shares lies with individual promoters, namely Mr. Lalit Kumar Lohia (44%), Mr. Jitendra Kumar Lohia (38%), and Mrs. Madhu Lohia (18%). Lalit Kumar Lohia is the Chairman of Pragati Group.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	489	752	665	563
EBITDA Margin (%)	13.64	11.06	15.03	13.38
Interest Coverage Ratio (x)	3.32	3.88	2.83	1.66
Current Ratio (x)	0.99	0.98	1.00	0.92
Total Debt/GCA (years)	9.96	8.46	8.22	20.75
Overall Gearing Ratio (x)	3.31	3.24	3.00	3.91

**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Term Loan	192.82	IRN B+
Fund Based Bank Facilities- Term Loan (Proposed)	Term Loan	40.00	IRN B+
Fund Based Bank Facilities-Working Capital Loan	Short Term	351.50	IRN A4
Non-Fund Based Bank Facilities- LC/BG*	Short Term	70.30	IRN A4
Non-Fund Based Bank Facilities- LC (Proposed)	Short Term	30.00	IRN A4
Total Facilities		**684.62**	

*Letter of Credit/ Bank Guarantee

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About Infomerics Credit Rating Nepal Limited:
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