

Press Release

Porwal Ginning and Pressing Private Limited

June 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of **'ACUITE B' (read as ACUITE B)** on the Rs.7.50 crore bank facilities of Porwal Ginning and Pressing Pvt Ltd (PGPPL). The outlook is **'Stable'**.

Established as a partnership firm in 2005 as 'Porwal Ginning and Pressing', subsequently reconstituted as private limited company in 2010, Porwal Ginning and Pressing Pvt Ltd (PGPPL) gins and presses cotton into cotton bales, crushes seeds into seed oil and de-oiled cakes. Based in Manwath (Maharashtra), the company is promoted and managed by Mr. Jaiprakash R. Porwal and Mr. Vijayprakash R. Porwal. The company has 18 gins and extraction unit with installed capacity of 50 metric tonnes per day (MTPD).

Key Rating Drivers

Strengths

- **Extensive experience of promoters in the cotton industry and their funding support:**
The promoters have more than three decades of experience in trading of agro-based commodities, pesticides and fertilisers. Further, they have more than a decade of experience in cotton ginning and pressing industry. Promoter's experience has helped PGPPL in the form of business linkages, understand the dynamics of local market, develop healthy relations with customers and suppliers, and ramp up operations over the medium term. Also, Promoters are infusing unsecured loans as and when required to support the liquidity. Unsecured loans from promoters stood at Rs.2.69 crore (Provisional) as of March 31, 2018. Acuite believes that PGPPL enjoys the financial flexibility from the promoters, as well as the business acumen in improving its business risk profile over the medium term.
- **Strategic Location of the plant**
The manufacturing facility is located at Manwath (Maharashtra) which is located in cotton cultivating belt, thus ensuring easy availability of raw material.

Weaknesses

- **Weak financial risk profile**
The gearing remained high above 4 times over the past 3 years ending March, 2018 due to modest net worth and higher debt. The gearing stood at 4.89 times (Provisional) as of March 31, 2018 vis-à-vis 4.76 times as of March 31, 2017. This marginal deterioration is due to higher reliance on bank borrowings and short term debt. The gearing is expected to remain high over the medium term with higher reliance on bank lines, and lower accretion to reserves. Net worth was modest at Rs.1.61 crore (Provisional) as on March, 2018 as compared to Rs.1.40 crore in the previous year. PGPPL's modest net cash accruals and high debt levels has led to weak debt

protection metrics of net cash accruals to total debt (NCA/TD) of 0.05 times; its interest coverage ratio is comfortable at 1.68 times (Provisional) in FY2018. Acuite believes that the financial risk profile would remain at similar levels on the back of modest scale of operations and meagre cash accruals.

□ **Susceptibility of operating margin to volatility in raw material prices and regulatory changes**

The operating margins of cotton ginners such as PGPL are susceptible to changes in cotton prices. Raw cotton is the major raw material accounting for 95 percent of the production cost. Cotton prices have been highly volatile and are expected to remain so, as they depend on the monsoon and are affected by international demand, thereby exposing the firm to price risk. Apart from demand and supply, cotton prices are also influenced by government policies.

□ **Volatile revenue and operating margins in intensely competitive industry:**

The revenue has been volatile over the past 4 years ending March, 2018 due to volatility in raw cotton prices which led to fluctuation in its finished products' realisations. In FY2018, the revenue was Rs.20.91 crore (Provisional) as compared to Rs.23.08 crore in FY2017. In FY2016, the revenue dipped by 33 percent to Rs.8.60 crore from Rs.12.80 crore in FY2015 due to cotton raw cotton prices being high due to higher Minimum Support Price (MSP) but lower realisations. The revenue is expected to show modest growth over the medium term with no major improvement in realisations expected and raw cotton prices remaining on higher side. Also, PGPL's scale of operations is expected to be limited in a highly competitive industry. Entry barriers are low on account of low capital and technology requirements and low end product differentiation, leading to high fragmentation and low profitability. Acuite believes that PGPL will be subject to risks related to direct competition from several unorganised players in Maharashtra, and thus will have limited pricing power and a modest scale of operations in the near term.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of PGPL.

Outlook: Stable

Acuite believes that the outlook of the PGPL will remain 'Stable' over the medium term on account of promoter's industry experience and their funding support. The outlook may be revised to 'Positive' if significant and sustained increase in revenues and profitability strengthens cash accruals and capital structure. The outlook may be revised to 'Negative' in case of any sharp decline in revenues leading to deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	23.08	8.56	12.84
EBITDA	Rs. Cr.	1.11	1.46	1.19
PAT	Rs. Cr.	0.03	0.12	-0.27
EBITDA Margin	(%)	4.81	17.04	9.26
PAT Margin	(%)	0.12	1.35	-2.11
ROCE	(%)	7.30	8.86	13.67
Total Debt/Tangible Net Worth	Times	4.76	8.11	11.20
PBDIT/Interest	Times	1.47	1.62	1.26
Total Debt/PBDIT	Times	6.19	7.79	7.26
Gross Current Assets (Days)	Days	131	450	197

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

None

Any other information

None

Applicable Criteria

- ☐ Manufacturing Entities: <https://www.acuite.in/criteria-manufacturing.htm>
- ☐ Application of Financial Ratios and Adjustments: <https://www.acuite.in/criteria-fin-ratios.htm>
- ☐ Default Recognition: <https://www.acuite.in/criteria-default.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.44	ACUITE B / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	2.06	ACUITE B / Stable

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About Acuité Ratings & Research:

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