

Pan Agri Export

October 22, 2019

Rating Assigned



| | |
|------------------------------|---|
| Total Bank Facilities Rated* | Rs. 65.00 Cr. |
| Long Term Rating | ACUITE BBB+ / Outlook: Stable (Assigned) |
| Short Term Rating | ACUITE A2 (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of 'ACUITE BBB+' (read as ACUITE triple B plus) and short-term rating of 'ACUITE A2' (read as ACUITE A two) on the Rs. 65.00 crore bank facilities of PAN AGRI EXPORT (PAE). The outlook is 'Stable'.

Incorporated in 1982, Pan Agri Exports (PAE) is a partnership firm engaged in manufacturing cottonseed oil, trading of raw cotton, cotton bales and other agro based commodities.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of the Jaydeep Cotton Fibres Private Limited and Pan Agri Exports together referred to as Jaycot Group to arrive at the rating. The consolidation is on account of similar line of business, common management and significant operational linkages. Extent of consolidation is full.

Key Rating Drivers

Strengths

- Extensive experience of promoters in the cotton ginning industry and established market position The promoters have been in the cotton industry for more than two decades. With extensive experience, the promoters have been able to establish their presence in the industry and maintain healthy relations with their customers and suppliers. The Jaycot group has diversified business interest across various sectors such as cement, laminate manufacturing, agriculture equipment, agro-commodities trading and health sector. The extensive experience of promoters is also reflected in the healthy revenue levels, which stood at Rs. 745.25 crore in FY2019 (Provisional) against Rs. 536.84 crore in FY2018.

Acuité believes that the group will continue to benefit from its established presence and the extensive experience of management in the cotton industry.

- Moderate financial risk profile

The moderate financial risk profile of the group is marked by high tangible net worth, moderate gearing and debt protection metrics. Networth stood at Rs.117.61 crore as on March 31, 2019 (Provisional) against Rs.104.59 crore as on March 31, 2018. Networth is increasing every year due to steady accretion to reserves. Gearing has improved to 1.33 times as on March 31, 2019 (Provisional) as compared to 1.52 times in the previous year. Total debt of Rs.156.99 crore includes working capital borrowings of Rs.114.78 crore, outstanding term loans of Rs.25.90 crore and unsecured loans from directors and relatives of Rs.16.31 crore. The group has followed a moderate financial policy in the past that is reflected through its average gearing of 1.36 times during the last three years. The group's cash accruals in the range of Rs.16-22 crore have supported in minimising the reliance on external debt, which is very well reflected in improved gearing. The cash accruals are estimated to remain in the range of Rs.25-32 crore, which will be sufficient for servicing debt obligations over the medium term. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection metrics. Interest coverage ratio (ICR) stood at 2.62 times in FY2019 (Provisional) against 2.48 times in FY2018, while DSCR stood at 1.67 times in FY2019 (Provisional) as against 1.59 times in FY2018. Debt to EBITDA and NCA/TD have improved since last year. It stood at 4.10 and 0.14 times, respectively, in FY2019 (Provisional) against 5.49 and 0.10 times in FY2018.

Acuite believes that the financial risk profile of the Jaycot group will continue to remain moderate over the near to medium term due to healthy revenue levels, stable profitability and moderate debt protection measures.

Weaknesses

- **Susceptibility of profitability to fluctuations in raw material prices**
The group is exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets. Acuite believes that the group's ability to pass on increase in cotton prices to the end customers shall be critical towards maintaining its credit risk profile. Adverse movements in prices on account of global demand - supply mismatches may result in downward pressure on the group's profitability margins over the near to medium term. The operating margins stood at 4.87 per cent in FY2019 (Provisional) against 51.4 per cent in FY2018.

Acuite believes that the group will maintain stable profitability due to better management of inventory and forex risk.

- **Highly competitive and fragmented industry**
The group operates in a highly competitive cotton ginning industry with several organised and unorganised players, which limits the bargaining power.

Rating Sensitivities

- Stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.
- Substantial increase in the scale of operations along with improvement in profitability margins over the near to medium term.

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by net cash accruals in the range of Rs.16-22 crore against maturing debt obligations in the range of Rs.5-7 crore during the last three years. The working capital operations are moderate as marked by gross current asset (GCA) days of 108 in FY2019 (Provisional) as compared to 148 days in FY2018. The cash credit limit remained utilized at ~76 per cent during the last six months period ended June 2019. The unencumbered cash and bank balances stood at Rs.1.91 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.75 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account increasing net cash accruals against maturing repayment obligations and moderate nature of working capital operations.

Outlook: Stable

Acuite believes that the group will continue to maintain a 'Stable' outlook over near to medium term, owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the group achieves sustained growth in revenues and higher-than-expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 745.25 | 536.84 | 541.60 |
| EBITDA | Rs. Cr. | 36.28 | 27.59 | 32.34 |
| PAT | Rs. Cr. | 16.07 | 10.16 | 15.80 |
| EBITDA Margin | (%) | 4.87 | 5.14 | 5.97 |
| PAT Margin | (%) | 2.16 | 1.89 | 2.92 |
| ROCE | (%) | 11.69 | 8.94 | 12.44 |
| Total Debt/Tangible Net Worth | Times | 1.33 | 1.52 | 1.23 |
| PBDIT/Interest | Times | 2.62 | 2.48 | 3.19 |
| Total Debt/PBDIT | Times | 4.10 | 5.49 | 3.62 |
| Gross Current Assets (Days) | Days | 108 | 148 | 108 |

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing entities - <http://acuite.in/view-rating-criteria-4.htm>
- Trading entities - <http://acuite.in/view-rating-criteria-6.htm>
- Consolidation of companies - <http://acuite.in/view-rating-criteria-22.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 | 40.00 [^] | ACUITE BBB+ / Stable (Assigned) |
| Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A2 (Assigned) |

[^] CC limits are interchangeable with EPC / PCFC / FBD. It also includes sub limit of Letter of credit Rs.5.00 crore.

Contacts

| Analytical | Rating Desk |
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| <p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Rishabh Mundada Analyst - Rating Operations Tel: 022-49294033 rishabh.mundada@acuите.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuите.in</p> |

About Acuite Ratings & Research:

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