Press Release

Pan Agri Exports

January 12, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 65.00 crore*
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating to **'ACUITE BBB+' (read as ACUITE triple B plus)** and the short-term rating to **'ACUITE A2' (read as ACUITE A two)** on the Rs. 65.00 crore bank facilities of Pan Agri Exports (PAE). The outlook is **'Stable'**.

Rationale for rating reaffirmation

The rating reaffirmation factors in the comfort derived from established track record of operations, experienced management, moderate financial risk profile and adequate liquidity position of the group. The rating derived also reflects decline in the scale of operations in FY2020 and working capital intensive nature of operations and adequate liquidity position of the group. Decline in scale of operations of Jaycot Group is marked by operating income of Rs. 439.53 crore in FY2020 as against Rs. 743.45 crore in FY2019, thereby resulting in fall of 40.88 per cent. This decline is on account of stressed trade relations with Pakistan (which accounted for ~31 per cent of the total revenue in FY2019), impact of increase in Minimum Support Price (MSP) over international cotton prices and impact of covid-19 in the last quarter of FY2020.

However, the profitability margins have increased marginally to 4.36 per cent in FY2020 in comparison to 4.32 per cent in FY2019. This led to lower dependence on working capital borrowings with an average utilization of ~70 per cent of fund-based limits during the last six months ending November 2020, while the non-fund based limits are negligibly utilized.

Further, the overall financial risk profile is moderate owing to strong net worth, moderate gearing and debt-coverage indicators. Net worth declined though remained strong at Rs. 138.83 crore as on March 31, 2020 as against Rs. 127.30 crore as on March 31, 2019. Gearing has improved from 1.13 times as on March 31, 2019 to 0.83 times as on March 31, 2020 supported by above-average debt coverage indicators with interest coverage ratio of 2.76 times as on March 31, 2020 and debt service coverage ratio of 1.57 times as on March 31, 2020. Working capital operations continue to be intensive and further deteriorated to Gross Current Assets (GCA) of 180 days in FY2020 as against 106 days in FY2019.

The rating also reflects adequate liquidity position of the group as evident from moderate net cash accruals of Rs. 16.48 crores in FY2020 against maturing debt obligations amounting to Rs. 6.62 crore during the same period.

Analytical Approach

Acuité has considered a consolidated view of business and financial risk profiles of Jaydeep Cotton Fibres Private Limited (JCFPL) and Pan Agri Exports (PAE) to arrive at this rating, owing to similar line of business, common management and operational as well as financial synergies between the entities. Extent of consolidation: Full.

About the Company: Pan Agri Exports (PAE)
Set up in 1982, Pan Agri Exports (PAE) is a partnership firm engaged into ginning & pressing of raw cotton and manufacturing cottonseed oil. The partners are Mr. Mansukhbhai Patel, Mrs. Ila Arvindbhai Patel, Mr. Arvindbhai Patel, Mr. Chiragbhai Patel and Mr. Alpeshbhai Patel. The firm is a part of the Pan group, which has diversified business interest across cement, laminate manufacturing, agriculture equipment and agro-commodities trading, health sector.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Jaycot group is promoted by Mr. Mansukhbhai Pan along with his family who have an experience of more than three decades in the aforementioned industry. With extensive experience, active participation and their in-depth understanding of the industry has helped the group in developing long-term relationships with its customers and suppliers.

The group has diversified business interest across various sectors such as cement, laminate manufacturing, agriculture equipment, agro-commodities trading and health sector.

Owing to various factors such as stressed trade relations with Pakistan and increase in MSP, the group has recorded a decline in revenue to Rs. 439.53 crores in FY2020 as against Rs. 743.45 crore in FY2019. However, the group has managed to recover the operations to a substantial extent and in current year till the month December, the group has already reported a revenue equivalent to the revenue of FY2020 by exploring alternate market opportunities in the exports market.

Acuité believes that Jaycot group will continue to benefit from its established track record of operations and extensive experience of the promoters in the cotton industry.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by strong net worth, moderate gearing, debt protection metrics and coverage indicators.

The net worth of Jaycot group is healthy, estimated at around Rs. 138.83 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of moderate profitability.

Jaycot group has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.25 times and 1.59 times as on March 31, 2018, over the past three years. The leverage levels have improved to remain moderate at 0.83 times as on March 31, 2020. The total debt of Rs. 114.67 crore as on 31 March 2020 comprised of long-term borrowings of Rs. 18.72 crores and working capital borrowings of Rs. 95.95 crores. Unsecured loans from related parties of Rs. 12.72 crore are classified as quasi equity as the amount would remain invested in the business in the long-run.

Moderate profitability has led to moderate debt coverage indicators of the Jaycot group marked by debt-service-coverage-ratio of 1.57 times as on 31st March, 2020 as against 1.72 times as on 31st March, 2019 and interest coverage ratio of 2.76 times as on 31st March, 2020 as against 2.97 times as on 31st March, 2019. Debt-coverage indicators are moderated against the last year, due to the decline in profitability levels. Currently, there are no major plans for capital expansion in the group companies.

Acuité believes that the financial risk profile of Jaycot group will continue to remain moderate on account of moderate profitability and strong net worth.

Weaknesses

- **Working capital intensive nature of operations**

Jaycot group has intensive working capital requirements, deteriorated from gross current assets (GCA) of 106 days in FY2020 as compared to 180 days in FY2019. This is on account of increase in inventory days from 80 days in FY2019 to 101 days in FY2020 and debtors' days from 14 days in

FY2019 to 38 days in FY2020. Inventory stood high due to covid-19 induced lockdown at the year end.

The average cash credit utilization for the past six months stood at ~70 per cent ended November, 2020. Further, the current ratio of Jaycot group stood at 1.69 times as on March 31, 2020. Acuité expects the working capital operations of the group to remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

- **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. Acuité 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 4.36 per cent in FY2020 against 4.32 per cent in FY2019.

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

Rating Sensitivity

- Significant improvement in the scale of operations.
- Deterioration in its working capital management.
- Substantial decline in profitability levels, thereby impacting group's debt coverage indicators.

Material Covenants

None

Liquidity: Adequate

The group has adequate liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The group has generated cash accruals of Rs. 16.48 crore for FY2020, while its maturing debt obligations were Rs. 6.62 crore during the same period. The group's working capital operations are intensive marked by Gross Current Asset (GCA) of 180 days for FY2020. The fund-based working capital limit of the group remains utilised at ~70 per cent over the last six months till November, 2020 while the non-fund based limit remains negligibly utilized. In addition to this, the group has availed covid-19 moratorium for interest as well as repayments. The current ratio of the group stood at 1.69 times as on March 31, 2020. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuité believes that Jaycot group will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and long-standing relationships with its customers. The outlook may be revised to 'Positive' in case the group registers higher-than expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	439.53	743.45
PAT	Rs. Cr.	11.31	14.88
PAT Margin	(%)	2.57	2.00
Total Debt/Tangible Net Worth	Times	0.83	1.13
PBDIT/Interest	Times	2.76	2.97

Status of non-cooperation with other CRA
None

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Consolidation of Companies: https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-October-2019	Cash Credit	Long term	40.00^	ACUITE BBB+/ Stable (Assigned)
	Proposed Short Term Bank Facility	Short term	25.00	ACUITE A2 (Assigned)

^Cash Credit limit is interchangeable with EPC/ PCFC/ FBD. It also includes sub-limit of Letter of Credit of Rs.5 crores.

***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	36.00^	ACUITE BBB+/ Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.20	ACUITE BBB+/ Stable (Reaffirmed)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.80	ACUITE A2 (Reaffirmed)

^Cash Credit limit is interchangeable with EPC/ PCFC/ FBD. It also includes sub-limit of Letter of Credit of Rs.5 crores.

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About Acuité Ratings & Research:
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