Press Release

Pongalur Pioneer Textiles Private Limited

February 01, 2021

Rating Assigned & Reaffirmed

Total Bank Facilities Rated*	Rs. 46.00 Cr. (Enhanced from Rs.40.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed & Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its 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 Cr bank facilities of Pongalur Pioneer Textiles Private Limited (PPTPL). Acuité has assigned its 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. 6.00 Cr bank facilities of the company. The outlook is **'Stable'**.

Incorporated in 1990, Pongalur Pioneer Textiles Pvt. Ltd. (PPPTL), is promoted by Mr. Selvapathy Venkataswamynaidu. Located in Pongalur, Tamilnadu, the company is engaged in manufacture of combed warp cotton yarn in fine counts (60's to 120's). PPTL commenced operations in 1992 with a spindleage of 3000 spindles. The company currently has an installed capacity of 1,16,016 spindles operating at ~95 percent capacity. PPTPL has a windmill with installed capacity of 1.675 megawatt (MW) in Tamil Nadu which supports about 10 per cent of its power requirement.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PPTPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Promoter's extensive industry experience and established track record of the company**
  PPTPL is a family-owned business with existence of more than 3 decades in the cotton spinning industry. The company was established with spinning capacity of 3,000 spindles in 1990 by Mr. Selvapathy Venkataswamynaidu, Managing Director, having an industry experience of 30 years. The day-to-day operations are managed by the promoter and his son - Mr. Aravind Selvapathy. With long track record of operations in Pongalur, Tamil Nadu; PPTPL is one of the largest cotton yarn manufacturer with total spinning capacity of 1,16,016 spindles along with 1.675 MW windmill for captive consumption. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers for over 3 decades. With promoter's extensive industry experience and established existence, PPTPL has been able to establish long-standing relationship with its suppliers and customers. The key customers of the company includes names like JV Enterprises, Kamla Mills India, amongst others. On the back of the stable demand and repeated orders from its key customers, the company's revenue have reached Rs.116.36 Cr in FY2020. Acuité believes that the promoter's extensive industry experience and established relation with its customers and suppliers will aid PPTPL's business risk profile over the medium term.

- **Moderate scale of operations and operating margins; moderate supplier and customer concentration risk in its revenue profile**
  PPTPL's scale of operations is moderate at Rs.116.36 Cr with operating margins at 11.56 percent in FY2020. PPTPL has been procuring its primary raw material – Cotton from its fixed suppliers having vintage of more than 1-2 decades. The top 5 suppliers contributed around 74 percent to the total raw material cost in FY2020 against 67 percent in FY2019 and 76 percent in FY2018; thereby indicating moderate supplier concentration risk. The risk is to some extent mitigated by the established relation with these suppliers. To add, the company has moderate customer concentration risk in its revenue profile; top 10 customers contributed ~54-55 percent to the revenue over the last 3 years ending March 31, 2020. No single customer has been contributing more than 40 percent to the overall revenue. Acuité believes that PPTPL's scale will remain moderate due to limited revenue growth expected in absence of no capacity expansion plans in the near to medium term. Additionally, supplier and customer concentration risk will remain at moderate levels; albeit will be mitigated to some extent due to the vintage and established relationship with its key suppliers and customers.

- **Improvement expected in operating metrics from FY2021 end**
  In 9MFY21, the cotton yarn realizations improved by 20 percent to Rs.401.70/kg. Whereas, Cotton yarn output declined from 35,36,084 kgs in FY2020 against 18,60,143 kgs; drop of 47 percent. This resulted in revenue fall of 21 percent in 9MFY21. Even H1FY21 being a lean season, the fall in output was deeper due to outbreak of Covid-19. Hence, in FY2021, despite a sharp rise in cotton yarn prices by 20 percent, lower output in 9MFY21 is expected to result in lower revenue. Cotton yarn prices have increased sharply in Q2 & Q3 of FY2021 as inventories dried up and supplies failed to match demand and spinning mills delayed resumption of their operations across the country. There was a sudden rise in demand for yarn from the garment and cloth sectors resulting in the non-availability of stocks. The other reason why yarn prices have increased is that prices of raw materials - cotton have also shot up. Consequently, the overall revenue is expected to de-grow marginally in FY2021 because of lower output in H1FY2021. In FY2021, the margins are expected to be relatively higher due to higher realisations and PPTPL holding cotton inventory at lower prices. Further, procuring cotton at lower prices in H1FY2021 and higher yarn prices would support the margins. Acuité believes that PPTPL's revenue growth will be marginally lower yet operating margins are likely to showcase higher spread in FY2021.

- **Above-average financial profile**
  PPTPL's financial risk profile is above-average, marked by healthy capital structure and above-average debt protection metrics. The company's gearing has been improving over the last 3 years ending March 31, 2020. It stood at 0.34 times as on March 31, 2020 against 0.63 times as on previous year due to healthy networth and comparatively lower reliance on external debt. Networth was healthy Rs. 75.37 Cr as on March, 2020 against Rs.67.68 Cr as on previous year end. PPTPL's debt protection metrics are above-average marked by interest coverage and Net cash accruals to total debt (NCATD) of 3.30 times and 0.31 times as on March, 2020 against 2.98 times and 0.19 times as on previous year end. Acuité believes that the capital structure and debt protection metrics are expected to improve over the medium term backed by no debt-funded capex plans, repayment of its existing loans and improving net cash accruals.

Weaknesses

- **Revenue and operating margins impacted on account of Covid-19 & unfavorable industry dynamics in FY2020 and H1FY2021**
  PPTPL's scale of operations are moderate with total operating income (TOI) at its peak in FY2019 at Rs.125.07 Cr; it de-grew by 6.96 percent in FY2020. The Y-o-Y decline in FY2020 was a consequence of lower yarn sales and realizations. Both roughly declined by 3.5-4 percent each on Y-o-Y basis, leading to a 7 percent decline in overall operating income. While yarn production remained lower by merely 2 percent in FY2020 with capacity levels at 95.75 percent in FY2020. Cotton yarn realisations shrunk by 4 percent to Rs.335.78/kg in FY2020 vis-à-vis Rs.348.20/kg in FY2019 due to excess supply vis-a-vis demand as well due to outbreak of Covid-19 in China in early November 2019 and in India from January 2020. The domestic cotton spinning industry is highly dependent on exports, particularly to China, with around 30 per cent of the cotton yarn produced in the country being exported, and China accounting for nearly one-third of the exports in recent years.
  PPTPL's absolute operating profit fell by 5.7 percent Y-o-Y in FY2020 to Rs.13.46 Cr from Rs.14.26 Cr in FY2019. The fall was a result of declining revenue along with continuous fall in cotton prices and liquidation of high cost cotton inventory in H1FY2020. The company held cotton inventory at an average price of Rs.142.73/ kg in FY2019 vis-a-vis Rs.135.37/kg in FY2020' depicting continuous fall in cotton prices. As a result, the conversion cost was relatively higher due to liquidation of high cost cotton inventory along with lower

demand too in H1FY2020. Subsequently, overall margins improved marginally in FY2020 due to better inventory management in H2FY2020; operating margin was at 11.56 percent in FY2020 vis-à-vis 11.40 percent in FY2019. Acuité believes that PPTPL's operating performance remained impacted due to outbreak of Covid-19 and unfavorable industry dynamics.

- **Working capital Cycle marked by moderate GCA days**
  PPTPL's working capital cycle is marked by moderate GCA days in the range of 118-131 days over the last 3 years ending March 31, 2020. The GCA days are marked by high inventory days yet low debtor days. The company had inventory and debtor levels of 88 and 21 days as on March 31, 2020 vis-à-vis 107 days and 19 days as on previous year ending, respectively. These are partially offset by high creditor days. It pays majority of its RM creditors using LCs with usance period of 90-180 days. The payable terms stood at 127 days as on March 31, 2020 against 93 days against previous year end. The moderate GCA cycle has led to moderate utilization of 61 percent on the bank lines of Rs.7.75 Cr over the past 12 months ending December, 2020.

- **Susceptibility to fluctuation 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. PPTPL is engaged in manufacture of fine counts, which provides some cushion from raw material price fluctuations. Acuité believes that PPTPL 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

PPTPL's liquidity is adequate, marked by moderate bank limit utilization, adequate net cash accruals against its debt obligations; albeit low current ratio. PPTPL has generated net cash accruals of Rs.8.01 Cr in FY2020 against debt obligation of Rs.4.76 Cr. The company is expected to generate adequate NCAs in the range of Rs.8.5-10.00 Cr against CPLTD of Rs.2.5-4.5 Cr over the medium term. The average fund-based working capital utilization stood between 61 percent for the past 12 months ended December, 2020. The company has maintained low unencumbered cash and bank balances over the last three years ending March 31, 2020. The current ratio stood low at around 1-1.1 times over the last 3 years ending March 31, 2020 due to high creditor days (majorly LC backed) and other current liabilities. Acuité believes that PPTPL's liquidity will remain adequate over the medium term.

Rating Sensitivities

- No capacity expansion to result in limited revenue growth over the medium term; any sharp fall in realisations or output to lead in lower-than-expected revenue in future.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.
- High debt-funded capital expenditure in the near to medium term.

Outlook: Stable

Acuité believes that PPTPL will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in revenues and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case PPTPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	116.36	125.07
PAT	Rs. Cr.	3.00	3.43
PAT Margin	(%)	2.58	2.74
Total Debt/Tangible Net Worth	Times	0.34	0.63
PBDIT/Interest	Times	3.30	2.98

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 "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-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

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
13-01-2020	Cash Credit	Long Term	5.75	ACUITE BBB- / Stable (Assigned)
	Letter of credit	Short Term	20.00	ACUITE A3/ Stable (Assigned)
	Term Loan I	Long Term	0.15	ACUITE BBB- / Stable (Assigned)
	Term Loan II	Long Term	0.22	ACUITE BBB- / Stable (Assigned)
	Term Loan III	Long Term	2.99	ACUITE BBB- / Stable (Assigned)
	Term Loan IV	Long Term	2.48	ACUITE BBB- / Stable (Assigned)
	Term Loan V	Long Term	1.75	ACUITE BBB- / Stable (Assigned)
	Term Loan VI	Long Term	0.78	ACUITE BBB- / Stable (Assigned)
	Term Loan VII	Long Term	1.86	ACUITE BBB- / Stable (Assigned)
	Term Loan VIII	Long Term	1.48	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	1.04	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A3/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Maturity Date Amount (Rs. Cr)	Recommended Rating
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.75	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3 (Assigned)
Term Loan I	23.01.2018	9.7%	10.05.2024	0.13	ACUITE BBB- / Stable (Reaffirmed)
Term Loan II	28.12.2017	9.7%	28.01.2024	0.11	ACUITE BBB- / Stable (Reaffirmed)
Term Loan III	28.12.2017	9.7%	28.02.2022	2.24	ACUITE BBB- / Stable (Reaffirmed)
Term Loan IV	28.12.2017	9.7%	05.07.2023	2.10	ACUITE BBB- / Stable (Reaffirmed)
Term Loan V	28.12.2017	9.7%	22.09.2023	1.50	ACUITE BBB- / Stable (Reaffirmed)
Term Loan VI	19.02.2018	9.7%	19.03.2025	0.70	ACUITE BBB- / Stable (Reaffirmed)
Term Loan VII	11.04.2018	9.7%	11.12.2025	1.69	ACUITE BBB- / Stable (Reaffirmed)
Term Loan VIII	25.09.2018	9.7%	25.10.2024	1.31	ACUITE BBB- / Stable (Reaffirmed)
Term Loan IX	15.06.2018	10.6%	15.01.2024	0.04	ACUITE BBB- / Stable (Assigned)
Term Loan X	28.12.2017	9.7%	28.11.2024	0.06	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.86	ACUITE BBB- / Stable (Reaffirmed
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.51	ACUITE A3 (Reaffirmed)

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