

## Press Release

Pongalur Pioneer Textiles Private Limited

May 27, 2022



### Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.49	ACUITE BBB   Stable   Upgraded	-
Bank Loan Ratings	27.51	-	ACUITE A3+   Upgraded
Bank Loan Ratings	32.00	ACUITE BBB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	78.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) from '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and short-term rating to '**ACUITE A3+**' (read as **ACUITE A Three plus**) from '**ACUITE A3**' (read as **ACUITE A Three**) on the Rs. 46.00 Cr bank facilities of Pongalur Pioneer Textiles Private Limited (PPTPL). Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) on the Rs. 32.00 Cr bank facilities of (PPTPL). The outlook is '**Stable**'.

The upgrade in the ratings factor in sustained improvement in business risk profile marked by continuous improvement in total operating income and operating margins driven by capacity expansion and improved yarn realisations.. In FY2022, PPTPL has availed long term debt for capital expenditure towards the capacity expansion by increasing the capacity of spindles. PPTPL with ongoing capex plans, has maintained moderate working capital management. PPTPL is expected to capitalize on the increasing demand through on-going capex plans over the near to medium term. The ratings also draw comfort from improvement in coverage indicators and comfortable debt protection metrics.

### About the Company

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 1,41,5521, spindles operating at ~96 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

For arriving at the ratings, Acuite has considered the standalone business and financial risk profile of PPTPL.

**Acuite Ratings & Research Limited**

[www.acuite.in](http://www.acuite.in)

## 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 1,41,552 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.110.01 Cr in FY2021. 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.110.01 Cr with operating margins at 14.23 percent in FY2021. 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 69 percent to the total raw material cost in FY2021 against 74 percent in FY2020 and 67 percent in FY2019; 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 ~60-65 percent to the revenue over the last 3 years ending March 31, 2021. 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 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.

- **Above- average Financial risk profile**

PPTPL has an above average financial risk profile marked by healthy capital structure and above average debt protection metrics. The tangible net worth stood at Rs. 84.92 Cr as on 31 March, 2021 as against Rs. 75.37 Cr as on 31 March, 2020. The gearing of the company has been improving over the last 3 years ending March 31, 2021. It stood at 0.26 times as on March 31, 2021 against 0.34 times as on previous year. The total debt as on 31 March, 2021 consist of working capital limits from banks of Rs.21.81 Cr. Further, the interest coverage ratio stood at 3.83 times as on 31 March, 2021 as against 3.30 times as on 31 March, 2020. The debt to EBITDA of the company stood at 1.38 times as on 31 March, 2021 as against 1.90 times as on 31 March, 2020. However, the TOL/TNW stood to 0.61 times as on 31 March, 2021 as against 0.73 times as on 31 March, 2020. 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.

## • **Significant improvement estimated in FY2022; driven by higher realisations and volumes**

As per the FY2022 annual provisionals, the company has reported Rs.192.84 Cr of revenue which was 60 percent higher than FY2021, because the Cotton yarn realisations improved by 25.5 percent to Rs.454.03/kg in FY2022 vis-à-vis Rs.361.67/kg in FY2022 and increased spindle capacity by 25,536 spindles, which became operational from Nov'21 led to higher off-take. EBITDA margin stood at 14 percent in FY2022. The company has reported record sales in FY2022 but the increase in raw material prices made the EBITDA margins remain moderate.

## **Weaknesses**

### • **Working capital Cycle marked by moderate GCA days**

The operations of the company is moderately working capital intensive marked by moderate Gross Current Asset (GCA) days of 125 days as on 31 March, 2021 as against 118 days as on 31 March, 2020. The GCA days are marked by high inventory days yet low debtor days. Inventory days stood at 76 days as on 31 March, 2021 as against 88 days as on 31 March, 2020. Subsequently, the payable period stood at 128 days as on 31 March, 2021 as against 127 days as on 31 March, 2020 respectively. Further, the average bank limit utilization in the last twelve months ended Jan, 22 remained at ~83 percent for fund based and 57 percent for non-fund based. Acuité believes that efficient management of its working capital cycle will remain crucial to the company.

### • **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.

## **Rating Sensitivities**

### **Positive**

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

### **Negative**

- Any large debt-funded capital expenditure, which may adversely impact its capital structure and liquidity
- Any further deterioration in working capital management leading to deterioration in financials risk profile

## **Material covenants**

None.

## **Liquidity Position: Adequate**

The liquidity profile of PPTPL is adequate marked by its moderate net cash accruals to its maturing debt obligations. The company has reported cash accruals of Rs.9.71 Cr. in FY2021 and expected to generate cash accruals in the range of Rs.19-31 Cr. against CPLTD of

Rs.3.78- 7.21 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs.1.55 Cr as on March 31, 2021. The current ratio of the company stood at 1.36 times as on 31 March, 2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of working capital intensive nature of operations. The fund based bank limits utilization of PPTPL is 83 percent for non-fund based and 57 percent for fund based respectively for the past 12 months ending March 2022.

### 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.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	110.01	116.36
PAT	Rs. Cr.	4.39	3.00
PAT Margin	(%)	3.99	2.58
Total Debt/Tangible Net Worth	Times	0.26	0.34
PBDIT/Interest	Times	3.83	3.30

### 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

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Term Loan	Long Term	2.10	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.86	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	0.11	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	0.04	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	0.70	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	0.13	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	0.06	ACUITE BBB-   Stable (Assigned)

01 Feb 2021	Term Loan	Long Term	2.24	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.51	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.69	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	1.31	ACUITE BBB-   Stable (Reaffirmed)
	Letter of Credit	Short Term	7.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	5.75	ACUITE BBB-   Stable (Reaffirmed)
13 Jan 2020	Term Loan	Long Term	1.31	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	5.75	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	2.10	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.86	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	0.11	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	0.04	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	0.70	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	0.13	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	0.06	ACUITE BBB-   Stable (Assigned)
		Long		ACUITE BBB-   Stable (Assigned)
	Term Loan	Term	2.24	
	Term Loan	Long Term	1.50	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	0.51	ACUITE A3 (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	1.69	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.51	ACUITE A3+   Upgraded ( from ACUITE A3 )
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.75	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+   Upgraded ( from ACUITE A3 )
Karur Vysya Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3+   Upgraded ( from ACUITE A3 )
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.86	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.06	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.09	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )

Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.11	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.74	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.57	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.26	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.63	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.53	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.31	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.58	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Karur							ACUITE

Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	14.70	BBB   Stable   Assigned
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	4.79	ACUITE BBB   Stable   Assigned
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	9.58	ACUITE BBB   Stable   Assigned
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.22	ACUITE BBB   Stable   Assigned
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.71	ACUITE BBB   Stable   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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