

## Press Release

Puneet Enterprises

April 20, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.14	ACUITE BBB-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	42.14	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

\*Refer Annexure for details

## Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.42.14 Cr bank facilities of Puneet Enterprises (PE). The outlook is '**Stable**'.

### Rationale for rating reaffirmation:

The reaffirmation in the rating reflects the long track record of operations of the firm and experienced promoter, reputed clients, improvement in the margins in FY2021, expected improvement in the revenues & margins going forward, efficient working capital operations and adequate liquidity position along with judicious utilization of the working capital limits. The rating, however, continues to remain constrained on account of deterioration in the revenues in FY2021 on account of covid-19 impact, moderate financial risk profile marked by withdrawal of capital resulting in low net worth, highly fragmented industry and exposed to agro climatic risk.

However, any further deterioration in financial risk profile of the firm will remain a key rating sensitivity going forward.

### About the Firm

Puneet Enterprises (PE) is a proprietorship concern set up in 2002 by Mr. Rasdeep Singh Chawla. The firm is engaged in ginning, pressing of cotton and extraction of oil from cotton seeds. The firm also sells cotton seeds and oil cakes. The firm's manufacturing facilities are located in Sillod, Aurangabad (owned unit), Manjeet Oil Mill (Leased) and Ghatanji in Maharashtra (Leased). Has establish presence in Madhya Pradesh, Maharashtra, Rajasthan, Telangana and Odisha. The firm has long trusted relationship and has strong base of high profile customers in domestic and overseas market. The firm has ginning capacity of 8.65 lakhs quintals per annum and oil extraction capacity of 4.55 lakhs quintals per annum. Puneet Enterprises (PE) has owned unit with 675 bales per day capacity.

### Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of PE to arrive at the rating.

## Key Rating Drivers

### Strengths

#### >Experienced promoter

The key promoter Mr. Rasdeep Singh Chawla, possess over two decades of experience in the cotton ginning and trading industry. The extensive experience of the promoter has benefited the firm by established longstanding relationship with its reputed customers and suppliers. The firm is also supported by skilled second line of management. The turnover of PE stood at Rs.332.05 crore in FY2021 against 413.16 crore in FY2020. The turnover declined due to the impact of Covid-19 amid lockdown issues in Q1FY2021. However, the firm has achieved turnover of Rs.512.17 crore for FY2022. The operating margin of the firm stood at 1.60 percent in FY2021 as against 1.43 percent in FY2020. The operating margins have improved in FY2021 due to low raw material cost. Also, the firm has daily outstanding orders in hand worth Rs.20-25 crore which is executed in 8-10 days. This gives adequate revenue visibility over the medium term.

Acuité believes that PE will continue to benefit from promoter extensive experience in the cotton industry and its improving business risk profile over the medium term and also the margins may remain stable over the medium term.

#### >Proximity to raw materials, reputed clients and efficiently managed working capital operations

The firm's manufacturing facilities are located in Sillod, Aurangabad and Ghatanji in Maharashtra which are key cotton growing areas, enabling steady availability of cotton and reduced logistical cost. Further, firm sells to reputed clients like Trident Ltd., Vardhaman Group, Louis Dreyfus Company India Pvt. Ltd., Sundaram Textiles Pvt. Ltd., and Birla Century to name few. Thus ensuring timely realization of receivables and reduces counter party risk. Further, PE's working capital operations are efficiently managed as evident from Gross Current Asset days (GCA) of 53 days in FY2021 against 54 days in FY2020 majorly due to efficient inventory and receivable management. The inventory days stood at 24 days in FY2021 against 7 days in FY2020. The firm maintains an inventory holding policy of 10-12 days for raw materials and 1 month for finished goods. The debtors' days stood at 17 days in FY2021 against 28 days in FY2020 which is corresponding to normal terms with the customers. The credit period given to customers is around 45 days on an average. The creditors' days stood at 18 days in FY2021 against 23 days in FY2020 which is also corresponding to normal terms with the suppliers. The firm procures raw cotton from farmers on immediate cash payment basis and for the other suppliers the firm enjoys a credit period of 15-20 days. However, working capital limits remains utilized at 50-60 percent for last 6 months ended March 28, 2022.

Acuité believes that the ability of the firm to maintain efficient working capital management will remain a key rating sensitivity.

### Weaknesses

#### >Moderate financial risk profile

Financial risk profile of PE is moderate marked by low net worth, moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 0.50 times as on March 31, 2021 against 0.24 times as on March 31, 2020. TOL/TNW stood at 1.29 times as on March 31, 2021 against 1.24 times as on March 31, 2020. Tangible net worth of the firm stood low at Rs.23.68 crore as on March 31, 2021 against Rs.29.73 crore as on March 31, 2020 (includes quasi equity of Rs.8.02 crore). The low net worth is majorly due to low profits in FY2021. Of the total debt of Rs.11.77 crore as on March 31, 2021, long-term debt stood at Rs.1.54 crore, short-term debt stood at Rs.6.11 crore, unsecured loans stood at Rs.3.88 crore and CPLTD stood at Rs.0.24 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.97 times and 0.43 times respectively in FY2021; while DSCR stood at 2.72 times in FY2021.

Acuité believes that the financial risk profile of the firm is expected to remain moderate in the absence of any major debt funded capex in near to medium term.

### >Highly fragmented industry and exposed to agro climatic risk

Cotton industry is highly fragmented with presence of large number of players resulting in intense competition and low bargaining power. PE being in cotton ginning business which is marked by low value addition margins remains low. Further, margins remain exposed to competition and fluctuation in raw material prices. Cotton being an agricultural commodity, its availability depends on monsoon. Moreover, government interventions and fluctuations in global cotton output may result in fluctuations in cotton prices and thereby profitability of the firm. However, the risk is partially offset by the ability of the firm to pass through the change in raw material prices to its customers.

### >Risk of capital withdrawal

PE was established as a proprietorship firm in 2002. Any substantial withdrawal of capital by the proprietor is likely to have an adverse impact on the capital structure.

### Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.
- Any further withdrawal of capital will be a key rating sensitivity.

### Material covenants

None

### Liquidity Position: Adequate

PE has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals in the range of Rs.3.71 crore – Rs.4.62 crore during the last three years through FY2019-21 against moderate repayment obligations of Rs.0.24 crore during the same period. It is expected to generate cash accruals in the range of Rs.6.97 crore – Rs.8.55 crore over the medium term, against moderate repayment obligations of Rs.0.24 crore. Unencumbered cash and bank balances stood at Rs.1.53 crore as on March 31, 2021 with a current ratio of 2.00 times in the same period. Liquid investments stood at Rs.3.46 crore as on March 31, 2021. The firm has not availed any covid loans / covid moratorium. However, the working capital limits remained utilized at ~50-60 percent for last trailing 6 months ended March 28, 2022.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

### Outlook: Stable

Acuité believes that PE will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	332.05	413.16
PAT	Rs. Cr.	4.31	4.62
PAT Margin	(%)	1.30	1.12
Total Debt/Tangible Net Worth	Times	0.50	0.24
PBDIT/Interest	Times	2.97	2.21

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

Not Applicable

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.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
21 Jan 2021	Cash Credit	Long Term	25.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	2.14	ACUITE BBB-   Stable (Assigned)

**Note:**

1. Cash Credit from Bank of Baroda includes sublimit of EPC/FBP/FBD (one-way interchangeability with CC limit) of Rs.10.00 crore.
2. Cash Credit from Punjab National Bank includes sublimit of EPC/PCFC/FBP/FBN/BD of Rs.5.00 crore.

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	30-06-2018	8.45	30-09-2027	1.94	ACUITE BBB-   Stable   Reaffirmed

### **Note:**

1. Cash Credit from Bank of Baroda includes sublimit of EPC/FBP/FBD (one-way interchangeability with CC limit) of Rs.10.00 crore.
2. Cash Credit from Punjab National Bank includes sublimit of EPC/PCFC/FBP/FBN/BD of Rs.5.00 crore.

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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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