

Press Release

Pooja Sree Traders

February 23, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE B/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs.12.00 Cr bank facilities of Pooja Sree Traders (PST). The outlook is '**Stable**'.

Pooja Sree Traders (PST) is a proprietorship concern established in 2010. PST is owned & managed by Mrs. P.Geethanjali. The PST is based at Annur, near Coimbatore, Tamil Nadu. The PST engaged in cotton ginning and pressing and it has an installed capacity of ginning 100 bales per day. The firm processes raw cotton (kappas) into cotton bales and trades into domestic markets.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PST to arrive at the rating

Key Rating Drivers

Strengths

- **Extensive industry experience of the proprietor**

The proprietor, Mrs. P.Geethanjali has an extensive experience of more than 2 decades in textile-ginning industry. The promoter is involved in the functional areas of the business and the day to day operations are managed by her spouse Mr. A.Padmanaban. This has enabled them to establish relationships with suppliers and customers for repeated business. Acuité believes that the promoter's extensive industry experience and established relation with its customers and suppliers will support PST's business risk profile over the medium term.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile of the firm is below-average marked by low net worth, leveraged capital structure and moderate debt protection metrics. The net worth of the firm is low at Rs. 1.14 Cr as on 31 March, 2020 from Rs.5.22 Cr as on 31 March, 2019 due to significant capital withdrawal about Rs.4.09 Cr as on 31 March, 2020 and low profitability levels. This resulted the highly leveraged capital structure, reflected in high gearing (debt-equity) and high total outside liabilities to tangible net worth (TOL/ TNW) stood at 10.54 times and 10.09 times as on 31 March, 2020 vis-à-vis 1.73 times and 1.80 times as on 31 March, 2019. The debt protection metrics are moderate with interest coverage ratio and net cash accruals to total debt at 1.16 times and 0.02 times, respectively in FY2020 vis-à-vis 1.25 times and 0.03 times in FY2019. Acuité believes that the financial risk profile of the firm is expected to remain below-average on account high long term borrowings and low profitability.

- **Working capital intensive nature of operations**

PST's operations are highly working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 154-396 days over the past 3 fiscals ended through March 31 2020. The firm had debtor and high inventory holding days are reported at 99 days and 324 days as on March 31, 2020 vis-à-vis 51 days and 209 days as on as on March 31, 2020, respectively. They are expected to be at similar levels due to seasonal nature of cotton availability, staggered deliverables to its clientele. On the other hand, the firm gets less credit of around 71 days on March 31, 2020 as against 10 days in as on March 31, 2019 from

its suppliers. This led to highly utilised working capital limits at 92 percent over the past six months ended December 2020. Acuité believes that going ahead; working capital requirement is expected to remain high over the medium term.

Liquidity Position: Stretched

The PST has stretched liquidity marked by tightly matching net cash accruals to its maturing debt obligations because of significant capital withdrawal by proprietor and highly utilized bank lines. PST generated cash accruals of Rs.0.15 to 0.20 Cr during the last 3 years through 2018-20, while its maturing debt obligations were in the range of Rs.0.10 Cr during the same period. The cash accruals of the firm are estimated to remain around Rs.0.20-0.25 Cr during 2021-23, while their repayment obligations are estimated to be around Rs.0.55 Cr during the same period. The shortfall was expected to meet through Guaranteed Emergency Credit Line (GECL) of Rs.1.80 Cr. PST's operations are highly working capital intensive reflected by its Gross Current Asset (GCA) days of around 154-396 days over the past three fiscals ended through March 31 2020. This led to highly utilised high at 92 percent over six months through December 2020. The current ratio stands weak at 1.00 times as on 31 March 2020. Acuité believes that the liquidity of PST is likely to remain poor over the medium term on account of very low cash accruals against its high repayment obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt funded capital expenditure, impacting the financial risk profile adversely.

Outlook: Stable

Acuité believes that PST will maintain a 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the firm registers higher-than-expected growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or larger-than-expected debt-funded capex or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	10.04	18.99
PAT	Rs. Cr.	0.09	0.15
PAT Margin	(%)	0.89	0.80
Total Debt/Tangible Net Worth	Times	8.54	1.73
PBDIT/Interest	Times	1.16	1.25

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

None

Any other information

None

Material covenants

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 Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (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	9.00	ACUITE B/Stable (Assigned)
working capital Term loan	July-2020	Not Applicable	May-2024	1.80	ACUITE B/Stable (Assigned)
Term Loan	Dec-2018	Not Applicable	May-2026	0.72	ACUITE B/Stable (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	0.48	ACUITE B/Stable (Assigned)

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About Acuité Ratings & Research:

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