

Press Release
Pashupati Cotspin Limited

November 03, 2022

Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	161.25	ACUITE BBB Negative Reaffirmed	-
Bank Loan Ratings	41.01	ACUITE BBB Negative Assigned	-
Total Outstanding Quantum (Rs. Cr)	202.26	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.161.25 crore bank facilities and assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.41.01 crore bank facilities of Pashupati Cotspin Limited (PCL). The outlook is '**Negative**'.

Reason for the rating

The rating reaffirmation considers the established presence of Pashupati Group supported by the extensively experienced promoters. It also takes into consideration the increase in the revenues of the group. The revenue of the group has improved by ~57 percent to Rs.855.97 crores in FY22 (Prov) as against Rs.545 crores in FY21. However the ratings are constrained by the negative outlook for the cotton industry, moderate financial risk profile of the group, working capital intensive operations and the stretched liquidity position of the group. The negative outlook takes into consideration the significant additions in the debt in the FY22 and the change in the financial risk profile due to the same. This has led to increase in the debt obligations as observed by the DSCR of 1.06 times of the group for FY22. It also takes into consideration the negative outlook for the cotton industry.

About Company

Pashupati Cotspin Limited (PCL), a Kadi, Gujarat based company was established as a partnership firm in 2013 by Mr. Saurin Parikh and his family and is engaged in ginning and spinning of cotton yarn. Further, it was reconstituted into a public limited company in 2017 and subsequently listed on the SME platform of NSE

About the Group

Pashupati Group was founded by Mr. Saurin Parikh in 1997 and had started with ginning of cotton through a small partnership firm in Kadi, Gujarat. Since then the group has expanded into several integrated activities in the textile processing industry through other group companies namely Pashupati Cotyarn LLP and Shree Pashupati Fabric LLP.

Pashupati Texspin Export LLP initially formed as a partnership firm under the name of Pashupati Textile in January, 2017 and started commercial operations in November, 2017 is engaged into sizing yarn and weaving of cotton fabric. The products sold by the firm includes grey fabric, sizing yarn, yarn, grey and sizing waste. The firm purchases cotton yarn from spinning mills located in Kadi, Gujarat and also group companies including Pashupati Cotspin Limited and Pashupati Cotyarn LLP. Further, the firm sells the finished products to traders located in Gujarat.

Pashupati Cotyarn LLP is a Gujarat based partnership firm under the Pashupati Group, which is engaged into crushing of cottonseed, delinting of cottonseed and manufacturing of TFO (two for one) yarn. It also undertakes manufacturing of TFO yarn on a job work basis for its group company Pashupati Cotspin Limited. The firm purchases cottonseed mainly from Pashupati Cotspin Ltd and further sells the crushed cottonseed, cotton oil cake, etc. to trading and marketing companies from Gujarat, Rajasthan.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Pashupati Cotyarn LLP and its group companies i.e. Pashupati texspin LLP and Pashupati Cotspin Limited together referred to as the 'Pashupati Group'. The consolidation is in view of the similar line of business, common ownership and significant intercompany financial and operational linkages.

Key Rating Drivers

Strengths

Reputed family held business with a vintage track of operations

Pashupati Group, based out of Kadi, Gujarat, is a family owned business with existence since 1993 started by Mr. Saurin Parikh and his family members through a small cotton ginning company. Since then, the activities in the group has expanded into diverse activities of textile space under the management of Mr. Saurin Parikh who has an overall experience of more than two decades in the textile processing industry and is the President of the Gujarat Textile Association. The other family members, who are directors in the group companies look after the day to day operations and allied activities in the group. Over the years, the brand name of "Pashupati" has been established by Mr. Parikh through association the domestic and international markets. Acuité believes that with a vast experience of the management coupled with presence in an integrated textile space with established brand name of "Pashupati" the business risk profile is expected to remain comfortable and support the operations over the medium term.

Integrated chain of operations and usage of modernized technology in the processing and manufacturing facility

Pashupati Group has a robust manufacturing and cotton processing capacity and an integrated presence in the textile processing industry. It is majorly into ginning, spinning, weaving and processing activities. The group has double roller (DR) gins of 112 nos [4.01 lac bales/ annum] which is one of the highly modernized gins among saw ginning or rotobar gins. Double roller gins have the highest and longest fibre length retention percentage with a minimal fibre loss of approx. 2 percent. The spinning activity includes a capacity of 37,000 ring spindles resulting in an annual capacity of 9,500 MT. The group also deals in TFO (two for one) yarn which is the two staged process where the yarns are doubled and then twisted. This process involves twisting of two or more single yarns in order to enhance the properties of the end product such as strengthening the yarn. The group has ~18 TFO machines which result in

3,060 MT/ annum. Furthermore, the group also does direct warping and sectional warping [also known as sizing] with a capacity of 2,100 MT/annum resulting to yarn beams. The integrated and in-house processes of ginning, spinning and weaving has enabled the group to provide yarn beams of consistent quality which offers counts of 30s and 40s compact. The weaving activity is supported by modernized 48 airjet looms, capacity of 60 lac meters/ annum. Through the above-mentioned modernized capacity, the group has majorly moved to production of 100 percent compact yarn production; the highest quality of ring spun yarn and has the highest fibre strength. Acuité believes that the business risk profile shall continue to benefit from the conscious investment of management in technology upgradation in the operations.

Improvement in revenues

The revenue of the group improved by ~57 percent and stood at Rs.855.97 crore in FY22(Prov) compared to revenue of Rs.545.12 crores in FY21. The increase in the revenue is majorly due to the increase in the price realization for the products. There is also an increase in the revenue of Pashupati Texspin LLP as the firm has started the exports in FY22. The operating profit margin of the group declined and stood at 6.34 percent in FY22(Prov) compared against 7.63 percent in FY21. The decline in the operating margin is on account of increase in raw material costs as well as increase in the selling expenses. The selling expenses increased as the brokerage and the commission charges increased in FY22. The operating margins are expected to improve in the future as the group is taking cost reduction measures like installation of solar panels. The PAT margin stood at 1.58 percent in FY22(Prov) against 1.55 percent in FY21. Acuité believes that the revenue of the group will improve in the medium term on back of the experienced management and increase in the exports. The operating margins are also expected to improve on account of the investment in the solar projects. However the cotton industry outlook for the medium term will be a key rating sensitivity.

Weaknesses

Moderate financial risk profile

The group has a moderate financial risk profile marked by tangible net worth of Rs.138.36 crore as on 31 March 2022(Prov) as against Rs.134.15 crore on 31 March 2021. The growth seen in the networth is subdued on account of withdrawal of capital from Pashupati Cotyarn LLP. The gearing level of the group stood at 1.80 times as on 31 March 2022(Prov) as against 1.49 times as on 31 March 2021. The total debt of the group comprised of long term debt of Rs.134.71 crores, unsecured loans of Rs.9.26 crores and short term debt of Rs.73.67 crore as on 31 March 2022. The group has taken a loan of Rs.20.20 crores from HDFC Bank in FY22 for the solar project. The project will be completed by FY23. The group is further planning to take a loan of Rs.26.14 crores for further installation of solar and windmills. The coverage ratios of the group remained moderate with Interest Coverage Ratio (ICR) of 2.49 times for FY22(Prov) as against 2.42 times for FY21. The Debt Service Coverage Ratio (DSCR) stood low at 1.06 times for FY22(Prov) as against 1.10 times for FY21. The DSCR for FY22 is low and will continue to remain low in medium term due to the high debt obligations arising due to the new loans availed. The total outside liabilities to tangible net worth (TOL/TNW) of the group stood at 2.12 times as on 31 March 2022(Prov) as against 1.64 times as on 31 March 2021. Acuité believes that the financial risk profile of the group will remain a key sensitivity in medium term.

Working capital intensive operations

The group's operations are working capital intensive as evident from Gross Current Asset (GCA) of 117 days as on March 31, 2022(Prov) as against 134 days as on March 31 2021. The inventory days improved and stood at 36 days for FY22(Prov) compared against 60 days for FY21. Average 20-30 days inventory is kept by the group. The debtor days stood at 51 days for FY22(Prov) as against 34 days for FY21. Average debtor days are 15-45 days for spinning segment and 30-90 days for the weaving segment. The creditor days of the group stood at 15 days for FY22 as against 6 days for FY21. The average creditors days is around 30-60 days. The average utilization of the working capital limits of the company remained moderate at ~84 percent in last six months ended Sept' 22 for the group. Acuité believes that the working capital management of the group will continue to remain a key rating sensitivity going ahead.

Susceptibility to volatility in prices of key raw materials

Pashupati Group's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic cotton (MECH, Shankar 6). Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain. Acuité believes that the group's business profile and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized.

Rating Sensitivities

Sustainable improvement in the operations and profitability margins

Any new loans taken and used for the investment in group companies above a stipulated level

Sustenance of the working capital cycle without any significant deviation leading liquidity constraints

Deterioration in the financial risk profile caused due to higher than expected debt-funded capex causing any further stretch in liquidity

Material Covenants

None

Liquidity position:stretched

The group has stretched liquidity position marked by low net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.30.00 crore in FY22 compared against maturing debt obligations of Rs.27.14 crore over the same period. The cash accruals of the company are estimated to remain around Rs.37.78-43.89 crore during 2023-24 period while its matured debt obligations is estimated to be in the range of Rs.35.36-35.59 crore during the same period. The company reliance on working capital borrowings is also on a moderate side marked by average utilization of working capital limits of ~84 percent for last 6 months ending September'22. The cash and bank balance of the group stood at Rs.0.10 crore as on March 31, 2022 and the current ratio also stood moderate at 1.90 times as on March 31, 2022. Acuité believes that the liquidity of the company will be a key rating sensitivity in medium term.

Outlook:Negative

The outlook is Negative on account of negative outlook on the cotton industry as well as significant increase in the debt leading to a change in the financial risk profile of the group. The outlook may be revised to 'Stable' in case the group maintains the revenues while maintaining the margins along with improvement in the financial risk profile of the group. Conversely, the rating may be downgraded if the group demonstrates further deterioration in the financial risk profile which deviates from the projections.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	855.97	545.12
PAT	Rs. Cr.	13.56	8.46
PAT Margin	(%)	1.58	1.55
Total Debt/Tangible Net Worth	Times	1.80	1.49
PBDIT/Interest	Times	2.49	2.42

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

BWR, vide its press release dated December 07, 2021 had downgraded Pashupati Cotspin Limited to 'BWR BB/A4; ISSUER NOT COOPERATING'.

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Oct 2022	Term Loan	Long Term	1.46	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	22.38	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	0.90	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	46.80	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	20.27	ACUITE BBB Negative (Reaffirmed)
	Dropline Overdraft	Long Term	14.40	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	2.78	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	38.70	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	0.93	ACUITE BBB Negative (Reaffirmed)
Term Loan	Long Term	10.96	ACUITE BBB Negative (Reaffirmed)	

	Term Loan	Long Term	1.67	ACUITE BBB Negative (Reaffirmed)
26 Jul 2021	Term Loan	Long Term	1.72	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	1.93	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	1.17	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	6.66	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	7.70	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	72.80	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	28.92	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	22.29	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	0.78	ACUITE BBB Stable (Assigned)
	Secured Overdraft	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	2.28	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
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	46.80	ACUITE BBB Negative Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.70	ACUITE BBB Negative Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.30	ACUITE BBB Negative Assigned
HDFC Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	14.40	ACUITE BBB Negative Reaffirmed
Axis Bank	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	14.25	ACUITE BBB Negative Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.26	ACUITE BBB Negative Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.78	ACUITE BBB Negative Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	10.96	ACUITE BBB Negative Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.93	ACUITE BBB Negative Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.46	ACUITE BBB Negative Reaffirmed
Punjab	Not		Not	Not	Not		ACUITE BBB

National Bank	Applicable	Term Loan	available	available	available	0.90	Negative Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	22.38	ACUITE BBB Negative Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.67	ACUITE BBB Negative Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	20.27	ACUITE BBB Negative Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	20.20	ACUITE BBB Negative 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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