



Press Release
Pashupati Cotspin Limited
December 28, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	202.26	ACUITE BB+ Stable Downgraded Negative to Stable	-
Total Outstanding Quantum (Rs. Cr)	202.26	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from **ACUITE BBB** (read as **ACUITE triple B**) on the Rs.202.26 crore bank facilities of Pashupati Cotspin Limited (PCL). The outlook has been revised from '**Negative**' to '**Stable**'.

Reason for downgrade

The rating downgrade is on account of the deterioration in the business risk profile of the Group. The revenue of the group declined and stood at Rs.595.04 crore in FY23 as against the revenue of Rs.855.71 crore in FY22. Along with this the operating margins declined and stood at 4.51 percent in FY23 as against 5.94 percent in FY22 and the PAT margin stood at 0.97 percent in FY23 as against 1.82 percent in FY22. The deterioration in business risk profile is on account of steep surge in the cotton prices in FY23 and consequent decline in demand for the cotton yarns. The lower profitability consequently led to low net cash accruals impacting the liquidity position of the company. The debt service coverage ratio of the company deteriorated to 0.71 times for FY2023 as against 1.29 times last year. The ratings however continues to derives comfort from the established track record of operations of the group. Going forward, the company's ability to improve its operating performance and liquidity position will be key rating monitorables.

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 Pashupati Texspin Export LLP. Pashupati Cotspin Limited is the flagship company of the group and Pashupati Cotyarn LLP has now been merged with Pashupati Cotspin Limited.

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. Further, the firm sells the finished products to traders located in Gujarat.

Unsupported Rating

Not Applicable

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 Cotspin Limited and its group companies i.e. Pashupati texspin LLP and Pashupati Cotyarn LLP 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 is likely to 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.

Weaknesses

Average financial risk profile

The tangible net worth of the group stood at Rs.128.07 crore as on March 31, 2023, as against Rs.140.32 crore as on March 31, 2022. There have been capital withdrawals made by the group which has impacted the networth in FY23. The gearing of the group stood at 2.00 times as on March 31, 2023, as against 1.71 times as on March 31, 2022. The total debt of the group consists of long-term debt of Rs.74.21 crore and short-term debt of Rs.146.90 crore as on March 31, 2023. The company has added term loans in FY22 and FY23 to the tune of around Rs.60 crore for installation of solar project and windmill. Due to the significant addition in the debt and decline in the business risk profile, the debt service coverage ratio of the group has deteriorated and stood below unity at 0.75 times as on March 31, 2023, as against 1.29 times as on March 31, 2022. The interest coverage ratio stood at 2.19 times as on March 31, 2023, as against 2.73 times as on March 31, 2022. Acuité believes that the ability of the group to improve its financial risk profile will remain key monitorable in the medium term.

Working capital intensive operations

The Group's working capital operations are intensive as evident from the GCA days of 133 days as on March 31, 2023 as against GCA days of 117 days as on March 31, 2022. The inventory days stood at 28 days for FY23 as against 34 days for FY22. Average inventory holding period is of around 20-30 days. The debtors' days stood at 81 days for FY23 as against 51 days for FY22. The average credit period allowed to the customers is around 30-90 days. The creditors days stood at 31 days for FY23 against 15 days for FY22. The average credit period received from the supplier is around 30-60 days. The average utilization of the working capital limits of the company is high at ~91 percent in last six months ended November' 23 for the group. Acuité believes that the ability of the group to improve the working capital management will be key rating sensitivity.

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

Further deterioration in the operations and profitability margins.

Deterioration in the financial risk profile caused by any further significant debt addition causing a stretch in liquidity position.

All Covenants

None

Liquidity position: Stretched

The group has a stretched liquidity position as reflected by the low cash accruals against the maturing debt obligations. The group generated cash accruals of Rs.17.87 crore in FY23 as against maturing debt obligations of Rs. 31.93 crore over the same period. The company is estimated to generate cash accruals of Rs. 21.73-27.43 crore over the period 2024-2025 against maturing debt obligations of Rs.33.03-34.81 crore over the same period. The group maintains unencumbered cash and bank balance of Rs.0.05 crore as on March 31, 2023. The current ratio stood at 0.93 times as on March 31, 2023. Acuité believes that the ability of the group to improve the business risk profile and infuse capital to support the liquidity will be a

key rating sensitivity in medium term.

Outlook:Stable

The outlook has been revised to Stable on account of expected reduction in the power costs of the Group due to the capital expenditure on windmills and solar project, thus leading to improvement in the profitability margins. The outlook may be revised to Positive if the group demonstrates significant improvement in the business risk profile along with the improvement in the financial risk profile. Conversely, the outlook may be revised to Negative on account of further deterioration in the business risk profile as well as decline in the debt protection metrics of the group.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	595.04	855.71
PAT	Rs. Cr.	5.76	15.59
PAT Margin	(%)	0.97	1.82
Total Debt/Tangible Net Worth	Times	2.00	1.71
PBDIT/Interest	Times	2.19	2.73

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

Not Applicable

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
03 Nov 2022	Term Loan	Long Term	0.93	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	20.20	ACUITE BBB Negative (Assigned)
	Term Loan	Long Term	0.90	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	1.67	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	10.96	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	46.80	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	38.70	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	6.30	ACUITE BBB Negative (Assigned)
	Dropline Overdraft	Long Term	14.40	ACUITE BBB Negative (Reaffirmed)
	Dropline Overdraft	Long Term	14.25	ACUITE BBB Negative (Assigned)
	Proposed Bank Facility	Long Term	0.26	ACUITE BBB Negative (Assigned)
	Term Loan	Long Term	20.27	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	2.78	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	22.38	ACUITE BBB Negative (Reaffirmed)
Term Loan	Long Term	1.46	ACUITE BBB Negative (Reaffirmed)	
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)
	Term Loan	Long Term	2.78	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	46.80	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	38.70	ACUITE BBB Negative (Reaffirmed)
	Dropline Overdraft	Long Term	14.40	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	20.27	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)	
		Long		ACUITE BBB Stable

26 Jul 2021	Term Loan	Term	1.72	(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)
	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)
	Term Loan	Long Term	28.92	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	22.29	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	46.80	ACUITE BB+ Stable Downgraded Negative to Stable
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE BB+ Stable Downgraded Negative to Stable
Axis Bank	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	14.25	ACUITE BB+ Stable Downgraded Negative to Stable
HDFC Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	14.40	ACUITE BB+ Stable Downgraded Negative to Stable
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.45	ACUITE BB+ Stable Downgraded Negative to Stable
Shree Kadi Nagarik Sahakari Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.89	ACUITE BB+ Stable Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.09	ACUITE BB+ Stable Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.96	ACUITE BB+ Stable Downgraded Negative to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.83	ACUITE BB+ Stable Downgraded Negative to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	22.40	ACUITE BB+ Stable Downgraded Negative to Stable
Punjab	Not	Term	Not	Not	Not			ACUITE BB+ Stable

National Bank	Applicable	Loan	available	available	available	Simple	0.54	Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.98	ACUITE BB+ Stable Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.82	ACUITE BB+ Stable Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.85	ACUITE BB+ Stable Downgraded Negative to Stable

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Tanvi Kadam Analyst-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.