

Press Release

Pashupati Cotyarn LLP

July 26, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.45 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 20.45 Cr bank facilities of Pashupati Cotyarn LLP. The outlook is '**Stable**'.

Rationale for Assigned Rating

The rating assigned considers the established presence of Pashupati Group supported by the extensively experienced promoters. This is further supported by the geographically strategic location of business and improvingly adequate operational size of the manufacturing facilities. Further, the rating also takes comfort from the operational size of the group and sustained margins coupled with the healthy capital structure characteristics supported by average debt protection metrics. The liquidity levels have also remained adequate in the last three years ended March 31, 2021 through healthy cash accruals against the term debt obligations. Additionally, comfort has also been obtained from the continuous capacity additions done in the group to expand the operations and also improve margins through conscious additions in power saving options like captive solar plants and upcoming windmill installation. Further, the group also receives adequate comfort in operations through support from Gujarat Government in the form of several schemes and subsidies. The rating has however, been constrained at same level given the moderately working capital-intensive nature of the operations and high bank limit utilization of its fund-based facilities at 94 percent through twelve months ending March, 2021.

Pashupati Cotyarn LLP established in 2014, 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.

About the Pashupati 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 Cotspin Limited and Shree Pashupati Fabric LLP.

- **Shree Pashupati Fabric 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 Cotspin Limited** 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.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Pashupati Cotyarn LLP and its group companies i.e. Shree Pashupati Fabric 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. Extent of Consolidation: Full.

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. The group also does exports cotton yarn and bales through one the JV company, 'S R Raja Exports Private Limited'. This JV is a profit-sharing JV between a large ginning player named Raja Industries out of Kadi area in Gujarat.

Acuite 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 no. s [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 along with 40/2 eli twist. 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. Acuite believes that the business risk profile shall continue to benefit from the conscious investment of management in technology upgradation in the operations.

- **Healthy operational size of business supported by inventory backed unexecuted order book**

Pashupati Group has a healthy operational size supported by adequate profitability margins. The group does ginning activities, spinning, weaving and sizing of yarn and the utilization levels remained high during FY2021 at 60 percent and 95 percent despite the Covid impact. It deals in sales of cotton bales, yarn sales, yarn waste sales, etc. It generated a revenue of Rs.540 Cr in FY2021 (Prov) against Rs.469 Cr in FY2020, Rs.634 Cr in FY2019. Drop in revenue in FY2020 was with respect to comparatively low utilisation given the lack of availability of quality cotton. Further, margins remained at 7.76 percent in FY2021 (Prov) against 6.85 percent in FY2020 and 7.83 percent in FY2019. Additionally, PCL in Pashupati Group has reported revenue of Rs.110 Cr during the Q1FY2022 and has unexecuted orders worth of Rs.60 Cr for the next two months. The Group's inventory is backed by these orders and it also has additional inventory to accommodate further orders. This gives a revenue visibility comfort going forward. Further, the group has invested in healthy amount of capex over the last 4 years, to the tune of Rs.132 Cr in expanding the capacity and addition of solar panels to reduce the overall power cost.

Going forward, the group is also planning on setting up a windmill (2x2.7MW) for its spinning and weaving activities to further reduce the power cost and help in generating better operating margins. Acuite believes that the group's operational is expected to improve owing to routine investment in capex to improve the capacity, regular inflow of order and order sizes and additional investment by the company in windmill to further minimize the power cost ensuring higher margins.

- **Moderate capital structure supported by average debt protection metrics**

Pashupati Group's financial risk profile is moderate, marked by a healthy network profile, moderate

gearing level and average debt protection metrics. The EBITDA margins of the group improved to 7.76 per cent in FY2021 (Prov) against 6.85 in FY2020. The improvement is attributable to reduction in power costs and improved realization in the period. The healthy profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.56 times and 1.31 times respectively in FY2021 (Prov) as against 2.03 and 1.17 times respectively in the previous year. The net worth of the group stood at Rs.131.85 Cr as on March 31, 2021 (Prov) as against Rs. 121.29 Cr as on 31 March, 2020. This improvement is on the account of addition to the equity capital and healthy reserve accretions. The gearing level stands average at 1.51 times as on March 31, 2021 (Prov) as against 1.47 times as on March 31, 2020, the moderate decline is basis increase in long-term borrowings in FY2021 due to additions of emergency credit line facilities to the tune of Rs.35 Cr. TOL/TNW (Total outside liabilities/Total net worth) stood moderate at 1.67 times as on March 31, 2021 (Prov) against 1.96 times in previous year. Further, the group also invests in routine capex for refurbishment of machineries and capacity additions which are done through internally generated funds.

NCA/TD (Net cash accruals to total debt) stands moderately at 0.15 times in FY2021 as against 0.13 times in FY2020. Acuite expects the financial risk profile to remain above-average over the medium to long term period on account of moderate capital structure and stable operations of the group.

Weaknesses

- **Moderately working capital intensive operations**

Pashupati Group's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 103-159 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are marked by high inventory days and moderate debtor days. The improved GCA days as on March 31, 2021 (Prov) is on account of prudent implementation of efficient collection and payment measures given the Covid-19 situation. The inventory held and advances given for the raw material is completely order back and mitigates the risk of holding high inventory of raw cotton. The inventory days and debtor days were at 61 days and 43 days, respectively, as on March 31, 2021 (Prov). These are partially offset by efficient creditor days at 5 days as on March 31, 2021 (Prov). The moderate GCA cycle has led to high utilization of 94 percent of its working capital bank lines of Rs.72.8 Cr over the past 12 months ending March, 2021. Acuite believes that the operations of the group will remain moderately working capital intensive on account of expected high level of inventory holdings to be maintained by the group for catering to new orders.

- **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. Acuite 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 unexpectedly high debt availed leading to weighing down of financial risk profile and liquidity
- 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 stretch in liquidity

Liquidity: Adequate

Pashupati Group's liquidity is adequate marked by moderate generation of net cash accruals in FY2021 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. The group has generated cash accruals in the range of Rs. 23 Cr to Rs. 29 Cr during last three years ending FY2021 (Prov) as against its long-term debt obligations of Rs. 11 Cr to Rs.17 Cr for the same period. Further, the debt-obligations, in the medium term are expected to increase and remain in the range of Rs. 23 Cr to Rs.25 Cr owing to repayments of emergency credit facilities availed during the Covid period of FY2020-21, against which the expected cash accruals are in the range of Rs. 31 Cr to Rs. 42 Cr leaving aside moderate cushion in the liquidity buffers. Furthermore, the group's working capital is moderate as evident from Gross Current Asset (GCA) of 139 days as on March 31, 2021 (Prov) as compared to 159 days as on March 31, 2020. The current ratio stood at 1.91 times as on March 31, 2021 (Prov) against 1.39 in previous year and the consolidated fund-based limit

remains utilized at 94 percent over the 12 months ended March, 2021. The Group maintained unencumbered cash and bank balances of Rs. 0.09 Cr as on March 31 2021 (Prov) against Rs. 0.03 Cr in previous year. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy order book and increasing scale of operations though partly constrained due to the huge repayment obligations against the cash accruals in the near term.

Outlook: Stable

Acuite believes that Pashupati Group will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, healthy unexecuted order book and prudent capex in the business. The outlook may be revised to 'Positive', in case of sustainable improvement in sales volumes and realizations from cotton yarn produced by the group leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case Pashupati Group registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	547.07	469.40
PAT	Rs. Cr.	10.77	5.99
PAT Margin	(%)	1.97	1.28
Total Debt/Tangible Net Worth	Times	1.51	1.47
PBDIT/Interest	Times	2.56	2.03

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated May, 2021 had denoted the rating of Pashupati Cotyarn LLP as 'CRISIL B/Stable/CRISIL A4; DOWNGRADED & ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Any 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>
- 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>

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 Facility (ies)	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.18	ACUITE BBB/Stable (Assigned)
Term Loan	Jan, 2018	11.35%	Mar, 2026	1.25	ACUITE BBB/Stable (Assigned)
Term Loan	Mar, 2019	11.35%	Sep, 2024	0.96	ACUITE BBB/Stable (Assigned)
Term Loan	Oct, 2020	11.35%	Mar, 2025	3.06	ACUITE BBB/Stable (Assigned)

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About Acuité Ratings & Research:

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