Pasupati Acrylon Limited

August 03, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.62	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short Term Bank Facilities	280.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**290.62 (₹ Two Hundred Ninety Crore and Sixty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings to the bank facilities of Pasupati Acrylon Limited (PAL) continues to derive strength from the established position of the company over three decades in acrylic staple fibre (ASF) industry, experienced promoters and management team, established relationship with customer and suppliers. The rating also factors PAL's foray in Cast Polypropylene (CPP) film segment leading to revenue diversification and comfortable financial risk profile.

The ratings are, however, constrained on account of working capital-intensive operations, foreign exchange, raw material volatility and availability of cheaper substitutes.

Outlook: Positive

CARE has retained the outlook at positive considering the improvement in profitability margins, debt protection metrics, strong liquidity position and comfortable operating cycle. The outlook shall be revised to 'Stable' if the company is unable to sustain its existing profitability margins owing to volatility in raw material prices and inability of the company to maintain optimum capacity utilisation of ASF manufacturing unit. Further, ratings may be revised upward in case there is overall improvement in operational performance of the company alongside sustaining its profitability margins.

Rating sensitivities

Positive:

- Sustained increase in total operating income beyond Rs 900 crore.
- Sustaining the improvement in the GCA above Rs.60 crore.
- Increase in the capacity utilisation above 90% for manufacturing of ASF.

Negative:

- Increase in overall gearing (including acceptance) beyond 1x.
- Decline in PBILDT Margins below 6% on sustained basis.

Detailed description of the key rating drivers:

Key Rating Strengths

Established position in acrylic fibre industry:

Pasupati Acrylon Limited (PAL) was established in 1982 and is a leading manufacturer of Acrylic Staple Fibre (ASF). However, it started its commercial operation in 1990. It is engaged in manufacturing of Acrylic Staple Fibre (ASF), both in dyed & grey form and has further diversified in Cast Polyproylene film (CPP). The domestic ASF industry is mainly concentrated among three large manufacturers namely PAL, Vardhman Acrylic Limited and Indian Acrylics Limited. PAL is one of the largest acrylic producers in the country with 42,000 Metric Tonnes Per Annum (MTPA).

Experienced promoter and Management team:

Pasupati Acrylon Limited was promoted in 1982 by Mr. Vineet Jain, Managing Director. Mr. Jain is BBA (London) and has been associated with PAL since 1990. He has around three decades of experience in the acrylic industry. Mr. S. P. Gupta is the Director of Operation who has a B. Tech in Chemical Engineering and has been associated with PAL since 2012. He has previously worked with various industries such as Acrylic Fibre, Chemicals, Fertilizer, Tea etc. and has got over four decades of experience. The promoters are supported by professional management team who have relevant experience in the industry.

Established relationship with customers & suppliers over the years:

Due to the its long track record of operations, PAL has developed an established relationship with its customers and suppliers. The company has been dealing with customers since last 25 years thus has been getting repeat orders from them. The revenue profile of the company is fairly diversified in terms of customers as top 10 customers contributed around 55% of sales during FY21 vis-à-vis 48% in FY21.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable financial risk profile:
The total operating income of the company has increased by ~53% to Rs.779.08 crore in FY22 as against Rs. 509.07 crore in FY20 mainly on account of significant increase in the raw material ACN price from Rs.97.47/kg to Rs.171.57/kg resulting in increased top line. The sales volume of ASF has declined by 1.41% to 30918 metric tonne (MT) in FY22 (PY: 31361 MT) however, sales realization improved by 50.22% to Rs.218.53/kg (PY: Rs. 145.47/Kg). Further, sales volume of CPP improved by ~59% to 6210 MT (PY: 3898 MT) and sales realization also increased by 27.36% to Rs. 160.85/Kg in FY22 from Rs. 126.3/Kg in FY21.
GCA of the company is also improving from past 3 years as in FY22 it reached to Rs.52.26 crore from Rs.49.59 crore in FY21 (PY: Rs. 21.05 crore in FY20).
The PBILDT margins declined by 399 bps to 8.47% in FY22 from 12.46% in FY21 however PBILDT improved in absolute terms from Rs.63.41 crore in FY21 to Rs.66.02 crore in FY22. The raw materials for ASF is majorly imported and has an average lead time of 5 months between buying and selling process. The raw material price was high when order for the same was placed. Thus, the company lost their margins from it as prices of ASF went down in the last quarter Q4FY22.
The overall gearing has improved to 0.34x as on March 31, 2022 from 0.42x as on March 31, 2021 account of higher networth base resulting from accretion of profit to reserves. Further, the debt protection metrics as marked by interest coverage and TDGCA also improved owing to better profitability. Interest coverage ratio stood at 20.84x for FY22 as against 16.79x for FY21 while TDGCA stood at 1.81x for FY22 as against 1.99x for FY21.

Foray in flexible packing industry would provide revenue diversification and growth:
The company has diversified into CPP Film (flexible packaging) by starting commercial operations in Sep, 2017 and had set up manufacturing capacity of 5,000 MTPA then. Further, the company had implemented expansion of CPP Films by another 5000 MT, taking total production capacity to 10000 MT. The flexible packaging industry has been growing at a healthy rate and finds application in industries such as snacks, confectioneries, tobacco, spices etc. The company reported income of Rs. 99.89 crore during FY22 from CPP Films vis-à-vis Rs 49.23 crore in FY20.

<u>Key Rating Weaknesses</u>

Volatility in profitability due to raw material and foreign exchange fluctuations:
PAL's profitability margins have remained volatile in the past primarily on account of raw material being crude derivative and the prices are dollar denominated. Acrylonitrile (ACN) the major raw material (~76% of total cost in FY22) being a derivative of crude demonstrates volatility. ACN cost increased to Rs.171.57/kg in FY22 from Rs. 97.47/kg in FY21. The prices get impacted with fluctuation in crude oil as well as the USD rates. Inability to pass on increase in the raw material cost might have adverse impact on the profitability of the company. The company imports majority of raw material consumed (around 85% in FY22) from USA, Japan etc. and thus is also exposed to foreign exchange fluctuation risk. The risk is mitigated to some extent as the company derives around 4% in FY22 (PY: 17%) of its revenue from exports thereby providing it natural hedge to that extent. PAL purchases the raw material approximately 5 months before the sale of final product, which also mitigate the risk to some extent as depreciated Indian rupee lead to increase the raw material price of ACN which company is able to pass on to its customers by increasing the sale price in domestic market. Further, as per risk management policy of PAL, foreign currency fluctuation risk is managed through limited and short-term hedging of transaction with bankers. The company normally hedges its exposure for the next two months in advance. Nevertheless, the company is exposed to the foreign exchange fluctuation risk. In FY22, due to decrease in the prices of ACN profitability margins of the company continuously declined in last four quarters as from Q1FY22 to Q4FY22, PAT margins declined from 13% to 2%.

High inventory holding:
The operations of the company are working capital intensive as the company holds inventory of around 66 days in FY22 as against 92 days in FY21. The decrease in inventory days is owing to increase in sales value as the inventory in absolute terms has remained almost in line with the previous year. The raw material acrylonitrile is 100% imported and it takes around 5 months between the shipment of the raw material and the point of sale of the product acrylic stable fiber.
The average collection days for the company has remained around 31 days in FY22 as the company provides 15-30 days credit to its domestic customers while certain customer makes advance payment. The export receivables are either backed by advances or LC (which is discounted). Also, the company purchases its raw material on LC thereby getting a credit of around 90-180 days. The average creditor days remained around 55 days during FY22 as against 90 days in FY21. Entailing all, operating cycle increased to 41 days in FY22 from 34 days in FY21.

Competitive industry scenario with cheaper substitutes and imports:
Acrylic is a substitute for cotton, wool and polyester and thus faces intense competition from these substitutes. Furthermore, the industry also faces competition from imports due to
demand supply mismatch and capacities. The domestic acrylic industry is concentrated among few players and the major raw material ACN has high volatility. However, as the prices are set on monthly basis, considering the current raw material prices, import prices and exchange rate, thereby reducing the competition to certain extent.

Liquidity: Strong
Liquidity is marked by strong envisaged GCA of Rs. 43.08 crore in FY23 against no repayment obligations of term debt and cash and bank balance to the tune of Rs. 105.43 crore as on March 31, 2022 (including margin money for LC). With a gearing of

0.34 times as of March 31, 2022, the issuer has sufficient gearing headroom, to raise additional debt for capex (if required). Its unutilized bank lines will also provide sufficient liquidity caution.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manmade Yarn Manufacturing
Manufacturing Companies
Policy on Withdrawal of Ratings

About the Company
Pasupati Acrylon Limited (PAL), promoted by Mr. Vineet Jain, is engaged in manufacture of Acrylic Staple Fibre (ASF), both in dyed & grey form. PAL has a manufacturing plant located at Moradabad District (Uttar Pradesh) with installed capacity of 42,000 Metric Tonnes Per Annum (MTPA) and is one of the largest domestic acrylic producers. The company has also diversified into CPP Film (flexible packaging) and has set up manufacturing capacity of 10,000 MTPA which started commercial operations since September, 2017

(Rs. crore)

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Pro.)
Total operating income	509.07	779.08	NA
PBILDT	63.41	66.02	NA
PAT	43.05	45.9	NA
Overall gearing (times)	0.42	0.34	NA
Interest coverage (times)	16.79	20.84	NA

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.62	CARE BBB+; Positive
Non-fund-based - ST-BG/LC		-	-	-	280.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	10.62	CARE BBB+; Positive	-	1)CARE BBB+; Positive (05-Oct-21)	1)CARE BBB+; Stable (01-Dec-20)	1)CARE BBB+; Stable (03-Jan-20) 2)CARE BBB+; Stable (05-Apr-19)
2	Non-fund-based - ST-BG/LC	ST	280.00	CARE A2	-	1)CARE A2 (05-Oct-21)	1)CARE A2 (01-Dec-20)	1)CARE A2 (03-Jan-20) 2)CARE A2 (05-Apr-19)
3	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)CARE BBB+; Stable (05-Apr-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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