Precot Limited

May 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	180.95 (Enhanced from 137.76)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long-term / Short-term Bank Facilities	158.50	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable / A Four Plus)
Short-term Bank Facilities	39.69 (Reduced from 49.50)	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	**379.14 (Rs. Three hundred seventy nine crore and fourteen lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Precot Limited (Precot) takes into account the improved operational and financial performance of the company over the last two quarters of FY21 (refers to the period April 1 to March 31) and is expected to remain strong in the near term given the favorable outlook for cotton yarn prices in both domestic and export markets. Furthermore, the company's TTD division also continues to report robust performance with higher share of value-added products. The ratings, however, continue to be constrained by exposure of profitability margins to the volatility in cotton/yarn price.

Rating Sensitivities

Positive factors

- Ability to scale up operations with greater product diversification and maintain PBILDT margins over 15% on sustained basis.
- Efficient utilization of working capital limits and Improvement in liquidity position with current ratio above 1.5x.

Negative Factors

- Any decline in operating profits due to prolonged impact of Covid pandemic leading to stretched liquidity.
- Any large debt-funded capital expenditure leading to overall gearing above 1.5x.

Detailed description of key rating drivers

Key Rating Strengths

Long-standing customer relationship with notable presence in export markets

Precot's business is primarily divided into two segments, viz the spinning division and the technical textiles division. The spinning division contributed to 70% (PY: 80%) of income in 9MFY21 (Prov.) while TTD contributed to 30% (PY: 16%) of income. Precot has a strong network of dealers/agents spread across India and export markets who facilitate the sale process of the company with key export markets being UK, US, Taiwan, Bangladesh etc. The company has diversified customer base with top ten customers contributing to around 35% to 45% of the total income over the past three years ended FY21.

Improved performance in Spinning division

It is to be noted that due to stoppage in production for around two months in Q1FY21 (refers to the period April 1 to June 30) following covid lockdown restrictions, Precot reported operating loss (Loss before Interest, Depreciation and Tax) of Rs.4.3 crore. However, since the lifting of lockdown, the prices of cotton yarn have increased due to increased demand. With better average sales realisation of yarn and reduced power cost, PBILDT margin of Spinning division improved to 8.83% over the period July to December 2020 and is expected to improve further in Q4FY21 on the back of continuous increase in yarn prices.

Robust performance with higher share of value-added products in Technical textile division

The income from TTD had been consistently increasing over the years and in 9MFY21, the same increased to Rs.103 crore from Rs.119 crore in FY20 registering annualized growth of 17% backed by increased demand for Hygiene products on the wake of covid-19 pandemic. PBILDT margin of TTD improved from 14.36% in FY20 to 30.40% in 9MFY21 (Prov) due to higher contribution of high margin products like Rolled and Finished goods.

The PBILDT margin of Precot which stood at 5.9% in Q1FY21 increased to 13.31% over the next six months. Precot reported PBIDLT of Rs.50.03 crore and net profit of Rs.3.10 crore in 9MFY21 (Prov) as against PBILDT of Rs.5.31 crore and net loss of Rs.11.13 crore in Q1FY21. The profitability is expected to improve further in Q4FY21 supported by upward trend in yarn prices.

Comfortable gearing, and improved debt protection metrics

The capital structure of the company remained comfortable at 1.09x as on March 31, 2020 and improved to 0.94x as on December 31, 2020.The capital structure is expected to improve by the end of March 2021 supported by the growth in accruals during the year. Due to better operating profits from the spinning division, the interest coverage improved from 1.56x in FY20 to 2.06x in 9MFY21.

Key Rating Weaknesses

Volatility in raw material prices: During the past years, the market has seen volatility in cotton yarn production due to the unstable cotton prices and inconsistent cotton yarn export policy. The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

Liquidity: Adequate - The liquidity is adequate marked by sufficient cushion in accruals against repayment obligations. The company has sanctioned working capital limits of Rs.178.5 crore and the average utilization of the same stood high at 91.44% for the past 12 months ended March 2021.The company availed moratorium for interest and principal repayment during the period March-August 2020 as a relief measure offered by the bank for Covid-19 pandemic. Precot had also availed ECLGS loans of Rs.25.27 in Q4FY21 for its working capital requirements.

Industry Outlook

The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with ending cotton stocks likely to decline by 3%. The cotton prices in India are also expected to be steady in the coming months backed by a likely growth in domestic consumption and improvement in cotton exports from India. While international demand for cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios- Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology for Cotton Textile Manufacturing
Rating Methodology- Manufacturing companies

About the Company

Precot Meridian Limited (Precot), Erstwhile Precot Meridian Limited, was established in 1962 as Premier Cotton Spinning Mills. The company's installed capacity as on December 31, 2020 was 1,88,640 spindles, 195 rotors and windmills of 5.5 MW. The company name was changed from 'Precot Meridian Limited' to 'Precot Limited' on December 15, 2020. The company had commissioned the commercial operations in its technical textile division (TTD) from June 2013, which is a 100% export oriented unit, set up in an SEZ.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	796.22	729.61
PBILDT	64.72	52.25
PAT	(8.28)	(16.54)
Overall gearing (times)	1.14	1.10
Interest coverage (times)	1.55	1.56

A-Audited;

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March, 2026	180.95	CARE BBB-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	158.50	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	39.69	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	180.95	CARE BBB-; Stable	-	1)CARE BB+; Stable (13-Aug-20)	1)CARE BBB-; Negative (18-Nov-19) 2)CARE BBB-; Stable (25-Jul-19)	1)CARE BBB-; Stable (21-Sep-18)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	158.50	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+ (13-Aug-20)	1)CARE BBB-; Negative / CARE A3 (18-Nov-19) 2)CARE BBB-; Stable / CARE A3 (25-Jul-19)	1)CARE BBB-; Stable / CARE A3 (21-Sep-18)
3.	Non-fund-based - ST-BG/LC	ST	39.69	CARE A3	-	1)CARE A4+ (13-Aug-20)	1)CARE A3 (18-Nov-19) 2)CARE A3 (25-Jul-19)	1)CARE A3 (21-Sep-18)

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/Packing Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

.

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr Naveen Kumar S
Mobile: 0422-4502399
Email: naveen.kumar@careratings.com

Relationship Contact
Name: Mr. V. Pradeep Kumar
Contact no. : 98407 54521
Email ID : pradeep.kumar@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**