Pasupati Acrylon Limited

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.62	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	280.00 (Enhanced from 155.00)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**290.62 (Rs. Two Hundred Ninety Crore and Sixty-Two Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale and 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 revised the outlook from stable to 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. Further, ratings may be revised upward in case there is overall improvement in operational performance of the company alongside sustaining its profitability margins.

Key Rating Sensitivity

Positive Factors

- Sustained increase in total operating income beyond Rs 900 crore.
- Sustaining the improvement in the PBILDT margins at 13%.

Negative Factors

- Increase in overall gearing (including acceptance) beyond 1x.
- Decline in PBILDT Margins below 3% 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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The revenue profile of the company is fairly diversified in terms of customers as top 10 customers contributed around 48% of sales during FY21 vis-à-vis 44% in FY20.

Comfortable financial risk profile

The total operating income of the company has declined by 31% to Rs. 511.41 crore in FY21 as against Rs. 667.65 crore in FY20 mainly on account of lower demand as a result of business operations being adversely affected by Covid-19 pandemic. The sales volume of ASF has declined by 19% to 31,361 metric tonne (MT) in FY21 (PY: 38,771 MT) along with decline in sales realization by 7% to Rs. 145.47/kg (PY: Rs. 156.36/Kg). Further, sales volume of CPP also decreased by 12% to 3,898 MT (PY: 4,420 MT) though sales realization increased by 4% to Rs. 126.30/Kg in FY21 from Rs. 121.40/Kg in FY20. During Q1FY22 (Prov results: refer to the period from April 01 to June 30), the company has achieved sales of Rs. 123.77 crore.

The PBILDT margins improved by 843 bps to 12.86% in FY21 from 4.43% in FY20 and PAT margin increased to 8.42% in FY21 from 1.95% in FY20. 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 (ACN) was low when order for the same was placed. Thus, the company benefitted from it as prices of ASF went up mimicking price movements of ACN in the last two quarter of FY21 and Q1FY22. The PBILDT and PAT margin stood at 19.93% and 13.44% respectively in Q1FY22.

The overall gearing has improved to 0.42x as on March 31, 2021 from 0.58x as on March 31, 2020 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 17.41x for FY21 as against 5.93x for FY20 while TDGCA stood at 1.99x for FY21 as against 5.23x for FY20. For Q1FY22, interest coverage ratio stood at 36.28x.

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. 49.23 crore during FY21 from CPP Films vis-à-vis Rs 53.66 crore in FY20.

Key Rating Weaknesses

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 (~72% of total cost in FY21) being a derivative of crude demonstrates volatility. ACN cost reduced to Rs. 97.47/kg in FY21 from Rs. 112.52/kg in FY20. 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 FY21) 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 17% in FY21 (PY: 28%) of its revenue from exports thereby providing it natural hedge to that extent. 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 and as on Sep 20, 2021 the company has hedged its exposure of LC payment due till November 2021. Nevertheless, the company is exposed to the foreign exchange fluctuation risk.

High inventory holding

The operations of the company are working capital intensive as the company holds inventory of around 92 days in FY21 as against 58 days in FY20. The increase in inventory days is owing to decline in sales 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 32 days in FY21 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 90 days during FY21 as against 74 days in FY20. Entailing all, operating cycle increased to 34 days in FY21 from 12 days in FY20.

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 analysis: Strong- Liquidity is marked by strong accruals of Rs 49.59 crore in FY21 and envisaged GCA of Rs. 33.20 crore in FY22 against negligible repayment obligations of Rs 0.06 crore and liquid investments to the tune of Rs. 68.76 crore as on March 31, 2021. With a gearing of 0.42 times as of March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Default Recognition]

[Criteria for Short Term Instruments]

[Rating Methodology for Manmade Yarn Manufacturing Sector]

[Rating Methodology - Manufacturing Companies]

[Liquidity Analysis of Non-Financial Sector entities]

[Financial ratios – Non-Financial Sector]

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. In crore)

Brief Financials (Rs. crore)	FY19	FY20	FY21
	A	A	A
Total operating income	831.58	667.65	511.41
PBILDT	53.97	29.60	65.74
PAT	27.38	13.05	43.05
Overall gearing (times)	0.77	0.58	0.42
Interest coverage (times)	6.61	5.93	17.41

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Rating History (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 (Rs. 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 (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-Cash Credit	LT	10.62	CARE BBB+; Positive	-	1)CARE BBB+; Stable (01-Dec-20)	1)CARE BBB+; Stable (03-Jan-20)2)CARE BBB+; Stable (05-Apr-19)	1)CARE BBB+; Stable (01-Oct-18)2)CARE BBB+; Stable (06-Sep-18)3)CARE BBB+; Stable (02-Apr-18)
2	Non-fund-based - ST-BG/LC	ST	280.00	CARE A2	-	1)CARE A2 (01-Dec-20)	1)CARE A2 (03-Jan-20)2)CARE A2 (05-Apr-19)	1)CARE A2 (01-Oct-18)2)CARE A2 (06-Sep-18)3)CARE A2 (02-Apr-18)
3	Fund-based - LT-Term Loan	-	-	-	-	-	1)CARE BBB+; Stable (05-Apr-19)	1)CARE BBB+; Stable (01-Oct-18)2)CARE BBB+; Stable (06-Sep-18)3)CARE BBB+; Stable (02-Apr-18)

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

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

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.*

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