

## Pasupati Acrylon Limited

August 16, 2023

| Facilities/Instruments     | Amount (₹ crore)                | Rating <sup>1</sup> | Rating Action |
|----------------------------|---------------------------------|---------------------|---------------|
| Long Term Bank Facilities  | 118.62<br>(Reduced from 140.62) | CARE BBB+; Stable   | Reaffirmed    |
| Short Term Bank Facilities | 280.00                          | CARE A2             | Reaffirmed    |

Details of instruments/facilities in Annexure-1.

### 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 project risk associated with new segment for Grain Based Ethanol Plant, working capital-intensive operations, foreign exchange risk, raw material price volatility and availability of cheaper substitutes.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Sustained increase in total operating income beyond Rs 850 crore.
- Sustaining the improvement in the GCA above Rs.45 crore.

#### Negative factors

- Decline in PBILDT Margins below 4% on sustained basis.
- Detrioration of net debt to EBITDA above 4x

**Analytical approach:** Standalone

**Outlook:** Stable

The "stable" outlook for the bank facilities of Pasupati Acrylon limited reflects that the entity is likely to sustain its financial performance and comfortable debt protection metrics along with strong liquidity position.

### Detailed description of the key rating drivers:

#### Key strengths

**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. 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 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 Polypropylene 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).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Established relationship with customers & suppliers over the years:** Due to 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 60.57% of sales during FY23 vis-à-vis 55% in FY22.

**Comfortable financial risk profile:** The total operating income of the company has increased by ~6.27% to Rs.827.96 crore in FY23 as against Rs. 779.08 crore in FY22 mainly on account of increase in the quantity sold by company in both ASF and CPP vertical. The sales volume of ASF has increased by ~14% and stood at 35260 metric tonne (MT) in FY23 (PY: 30918 MT) however, sales realization declined by 6.13% and stood at Rs.205.12/kg (PY: Rs. 218.53/Kg). Further, sales volume of CPP improved by ~23% and stood 7640 MT (PY: 6210 MT) however, sales realization reduced by 10.83% and stood at Rs. 143.42/Kg in FY23 from Rs. 160.85/Kg in FY22.

GCA of the company remained satisfactory at Rs. 42.70 crore as against Rs. 52.26 crore in FY22. The PBILDT margins declined by 246 bps to 6.01% in FY23 from 8.47% in FY22. The decline in the profitability was mainly due to losses incurred in CPP segment from Q2FY23 to Q4FY23. PBT from ASF segment stands at 8.22% as against PBT from CPP segment stood at -6.45% in FY23.

The company's overall gearing improved to 0.32x as of March 31, 2023, compared to 0.34x as of March 31, 2022. This improvement was driven by higher networth base resulting from accretion of profit to reserves. Further, the debt protection metrics as marked by comfortable interest coverage and TDGCA. Interest coverage ratio stood at 13.79x for FY23 as against 20.84x for FY22 while TDGCA stood at 2.34x for FY23 as against 1.81x for FY22. The moderation in interest coverage ratio and TDGCA was on account of moderation in the profitability.

**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. 108.68 crore during FY23 from CPP Films vis-à-vis Rs.99.89 crore in FY23. PBT from ASF segment stands at 8.22% as against PBT from CPP segment stood at -6.45% in FY23.

## Key weaknesses

**Volatility in profitability due to raw material:** 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 (~70% of total cost in FY23). ASF primarily relies on imported raw material ACN, with an average lead time of 5 months between procurement and selling. Starting from January 2022 and February 2022, the price of ACN gradually decreased from 1700 USD PMT to around 1400-1500 USD PMT until March 2023, but the demand remained low due to the persistent decrease in ACN prices compared to the selling price of ASF products.

The primary cause behind the decline in ACN prices was the surplus capacity resulting from China's new ACN production plants at the beginning of the year. This increased production capacity led to an oversupply in the market. Additionally, the decrease in Propylene price, which serves as a raw material for ACN, further contributed to the crash in ACN prices, reaching their lowest point at USD 900 PMT in June 2023.

Due to substantial decline in the raw material prices, there is impact on the profitability during Q1FY24 and expected to have further major impact in Q2FY24 as the inventory procured during Q4FY23 at higher prices will be sold in Q2FY24. Due to volatility in the raw material prices, company has not procured any additional inventory during Q1FY24 and has placed one order in Q2FY24 at \$900 per ton and the current prevailing price is around \$1000 per ton. Therefore going forward, in the event of further decline in prices below \$900 per ton will result in major losses to the company and may have an adverse on liquidity and capital structure of the company.

**Working capital-intensive operations:** The operations of the company are working capital intensive as the company holds inventory of around 79 days in FY23 as against 66 days in FY22. 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 28 days in FY23 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 54 days during FY23 as against 55 days in FY22. Entailing all, operating cycle increased to 53 days in FY23 from 41 days in FY22.

**Project execution and stabilization risk:** PAL has undertaken capex plan with total project cost of Rs.182.58 crore (including margin money of Rs.15.00 crore) for setting up Grain Based Ethanol Plant of 150 KLPD Capacity at Village Mohammad Ganj, Tehsil - Thakurdwara, Dist. Moradabad, Uttar Pradesh. The company also proposes to setup 4 MW co-generation power plant with 35 TPH Boiler. The project is funded through term loan of Rs.108 crore and balance through internal accruals of Rs.59.58 crore. The debt is sanctioned for the project. The project is at very nascent stage as company has incurred ~Rs.12 crore till July 31, 2023. The project is expected to commence its operations from FY25. The execution of the project with the envisaged time and cost remains a crucial from analytical prospective. Further, post project implementation risk in the form of stabilization and streamlining of operations to achieve the envisaged scale of business and risk associated with the services in the light of competitive nature of industry is yet to be seen. During the initial phases of operations on new facility, the capital structure of the company is expected to remain leveraged due to debt funded CAPEX undertaken.

**Foreign exchange fluctuations risk:** The company imports majority of raw material consumed (around 80% in FY23) 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 11.76% in FY23 (PY: 4%) of its revenue from exports thereby providing it natural hedge to that extent. The company has Green Back Forex as Forex hedging consultant which helps the company to do Forex hedging on case to case basis. 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. Further company 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. Nevertheless, the company is exposed to the foreign exchange fluctuation risk.

**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 PAL is marked strong as there is no repayment obligations of term debt in FY24 and FY25 as against healthy cash accruals generated by the company. PAL has generated cash accruals of Rs.42.70 crore in FY23 and envisaged cash accruals of Rs.22.13 crore in FY24. Furthermore, company has sufficient liquidity in the form of cash and bank balance including liquid investment of Rs.113.82 crore (including lien marked FDs of Rs.18.35 crore and mutual funds of Rs.74.70 crore) as on March 31, 2023. Moreover, comfort can be derived from its unutilized bank lines will also provide sufficient liquidity caution.

#### **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 and industry**

##### **Industry classification**

| Macro Economic Indicator | Sector   | Industry            | Basic Industry         |
|--------------------------|----------|---------------------|------------------------|
| Consumer Discretionary   | Textiles | Textiles & Apparels | Other Textile Products |

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

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | Q1FY24 |
|----------------------------|--------------------|--------------------|--------|
| Total operating income     | 779.08             | 827.96             | NA     |
| PBILDT                     | 66.02              | 49.78              | NA     |
| PAT                        | 45.90              | 35.91              | NA     |
| Overall gearing (times)    | 0.34               | 0.32               | NA     |
| Interest coverage (times)  | 20.84              | 13.79              | NA     |

A: Audited NA: Not available; Note: 'the above results are latest financial results available'

**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:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

| Name of the Instrument      | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|-----------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|-------------------------------------------|
| Fund-based - LT-Cash Credit |      | -                             | -               | -                          | 10.62                       | CARE BBB+; Stable                         |
| Fund-based - LT-Term Loan   |      | -                             | -               | Sep 2032                   | 108.00                      | CARE BBB+; Stable                         |
| Non-fund-based - ST-BG/LC   |      | -                             | -               | -                          | 280.00                      | CARE A2                                   |

**Annexure-2: Rating history for the 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 2023-2024 | 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 |
| 1       | Fund-based - LT-Cash Credit            | LT              | 10.62                        | CARE BBB+; Stable | -                                           | 1)CARE BBB+; Stable (23-Mar-23)<br>2)CARE BBB+; Positive (03-Aug-22) | 1)CARE BBB+; Positive (05-Oct-21)           | 1)CARE BBB+; Stable (01-Dec-20)             |
| 2       | Non-fund-based - ST-BG/LC              | ST              | 280.00                       | CARE A2           | -                                           | 1)CARE A2 (23-Mar-23)<br>2)CARE A2 (03-Aug-22)                       | 1)CARE A2 (05-Oct-21)                       | 1)CARE A2 (01-Dec-20)                       |
| 3       | Fund-based - LT-Term Loan              | LT              | 108.00                       | CARE BBB+; Stable | -                                           | 1)CARE BBB+; Stable (23-Mar-23)                                      | -                                           | -                                           |

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings 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.

## Contact us

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