Pasupati Acrylon Limited

July 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	193.62 (Enhanced from 118.62)	CARE BBB+; Stable	Reaffirmed
Short Term Bank Facilities	230.00 (Reduced from 280.00)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Pasupati Acrylon Limited (PAL) continue to derive strength from the comfortable capital structure and strong liquidity position of the company. The ratings also continue to take comfort from the established position of the company over three decades in acrylic staple fibre (ASF) industry with experienced promoters & management team, established relationship with customer and suppliers and diversified source of revenue.

The ratings are, however, continue to remain constrained by the project implementation and stabilisation risk associated with new segment for Grain Based Ethanol Plant, working capital-intensive nature of operations, foreign exchange risk, raw material price volatility and availability of cheaper substitutes. The ratings take cognizance of moderation in total operating income and profitability of the company during FY24 (Audited) (refers to the period April 01 to March 31) largely due to subdued demand and realizations during first half of FY24, however the company has reported improvement in income and profitability margins during second half of FY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operation with total operating income above Rs 850 crore and PBILDT margins above 7% on a sustained basis.
- Sustaining the improvement in the GCA levels above Rs.50 crore.

Negative factors

- Any significant increase in debt levels resulting in overall gearing (including acceptance) above 1x on a sustained basis.
- Further decline in PBILDT margins below 3% and weakening of debt coverage indicators.

Analytical approach: Standalone

Outlook: Stable

The "stable" outlook reflects CARE's opinion that the entity will continue to benefit from its established position in acrylic fibre industry comfortable debt protection metrics and strong liquidity position.

Detailed description of the key rating drivers:

Key strengths

Experienced promoter and management team:

PAL 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:

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 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

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

Limited and Indian Acrylics Limited. PAL is one of the largest acrylic producers in the country with 42,000 Metric Tonnes Per Annum (MTPA).

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 58.99% of sales during FY24 vis-à-vis 60.57% in FY23.

Moderation in income and profitability during FY24; albeit comfortable overall gearing
The company's total operating income declined by approximately 30.33% to Rs. 576.83 crore in FY24, compared to Rs. 827.96 crore in FY23. This decline was largely due to lower realizations caused by price volatility coupled with lower quantity sold by the company in both ASF and CPP segment owing to subdued demand. However, GCA of the company in FY24 stood at Rs.19.75 crore as against no term debt repayment obligation till FY25.
The sales volume of ASF has dipped by ~10% and stood at 31685 metric tonne (MT) in FY24 (PY: 35260 MT) also, sales realization declined by ~23% and stood at Rs.157/kg (PY: Rs. 205.12/Kg) due to product price volatility. Further, sales volume of CPP also moderated by ~15% and stood 6476 MT (PY: 7640 MT) along with sales realization reduced by ~16% and stood at Rs. 120.12/Kg in FY24 from Rs. 143.42/Kg in FY23.
The PBILDT margins declined by 294 bps to 3.07% in FY24 from 6.01% in FY23. The decline in the profitability margins were on account of losses incurred by the company in ASF and CPP film segment in Q2 of FY24, this was mainly on account of decline in the price of raw material and further decline in the realization. However, improvement was reported during Q3 and Q4 of FY24 and profit margins stood at 9.50% and 10.84% respectively as compared to loss incurred in Q1 and Q2 of FY24.
The capital structure of the company continues to remain comfortable as marked by overall gearing ratio of 0.41x as on March 31, 2024 as against 0.32x as on March 31, 2023. The debt protection metrics also remained comfortable marked by Interest coverage ratio of6.86x for FY24 and no term debt obligations till FY25.

Diversified sources of revenue:
The company has two diversified revenue segments in FY24 which includes ASF and CPP. Company has diversified into CPP Film (flexible packaging) by starting commercial operations in Sep 2017 and has set up manufacturing capacity of 5,000 MTPA. Further, the company had implemented expansion of CPP Films by another 5000 MT, taking total production capacity to 10000 MT. Furthermore, in FY25, company is planning to start the operations of their Ethanol segment. Company is setting up Grain Based Ethanol Plant of 150 KLPD Capacity in Uttar Pradesh. This will mitigate the risk of depending on a single revenue stream going forward.

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 FY24). ASF primarily relies on imported raw material ACN, with an average lead time of ~5 months between procurement and selling. Any fluctuation in the raw material price in this period impacts the profitability of the company.
During FY24, ACN cost decreased significantly primarily due to surplus capacity coming up 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 decline in ACN prices, reaching their lowest point at USD 900 PMT in June 2023. Due to substantial decline in the raw material prices and realizations, there was impact on the profitability during Q1FY24 and Q2FY24 as the inventory procured during Q3-Q4 of FY23 at higher prices was sold in Q1 and Q2 of FY24. However, in Q3 and Q4 ACN prices remained stable at ~USD 1250 PMT- USD 1350 PMT which lead to stable profits in Q3 and Q4 of FY24. Therefore, going forward, in the event of decline in prices the profitability of the company may be impacted.

Working capital-intensive operations:
The operations of the company are working capital intensive as the company holds inventory of around 63 days in FY24 as against 53 days in FY22. The raw material acrylonitrile is 100% imported and it takes around 4-5 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 1 month in FY24 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 70-80. Entailing all, operating cycle of around 63 days in FY24.

Project implementation and stabilisation Risk :
PAL has undertaken capex plan with total project cost of Rs.182.58 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 in advance stage of completion as company has incurred 88% of the total cost as on June 30, 2024 upon civil work, plant and machinery. The project is expected to commence its operations from October 2024.

Further, post project implementation, the risk related to stabilization and streamlining of operations remains. Going forward, achievement of envisaged scale of operations and profitability remains monitorable.

Foreign exchange fluctuations risk:
The company imports majority of raw material consumed (around 80% in FY24) 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 8% in FY24 (PY: 11.76%) 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. Further, 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
The liquidity of PAL is strong characterised by cash and bank balance including liquid investment of Rs.139.87 crore (including lien marked FDs of Rs.18.46 crore and mutual funds of Rs.85.17 crore) as on March 31, 2024. Further, the company has no repayment obligations of term debt in FY25 as against healthy cash accruals generated by the company. The repayment of TL will start from Q4 of FY26. PAL has generated cash accruals of Rs.19.75 crore in FY24 and envisaged cash accruals of ~Rs.44 crore in FY25. Moreover, comfort can be derived from its unutilized fund based limits amounting Rs.10.62 crore will also provide sufficient liquidity cushion.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Manmade Yarn Manufacturing

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. Company is also setting up Ethanol project of 150 KLPD Capacity at Village Mohammad Ganj, Tehsil - Thakurdwara, Dist. Moradabad, Uttar Pradesh.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	779.08	827.96	576.83
PBILDT	66.02	49.78	17.69
PAT	45.90	35.91	13.19
Overall gearing (times)	0.34	0.32	0.41
Interest coverage (times)	20.84	13.79	6.86

A: Audited; 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		-	-	-	85.62	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	Dec 2032	108.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	230.00	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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	85.62	CARE BBB+; Stable	-	1)CARE BBB+; Stable (16-Aug-23)	1)CARE BBB+; Stable (23-Mar-23) 2)CARE BBB+; Positive (03-Aug-22)	1)CARE BBB+; Positive (05-Oct-21)
2	Non-fund-based - ST-BG/LC	ST	230.00	CARE A2	-	1)CARE A2 (16-Aug-23)	1)CARE A2 (23-Mar-23) 2)CARE A2 (03-Aug-22)	1)CARE A2 (05-Oct-21)
3	Fund-based - LT-Term Loan	LT	108.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (16-Aug-23)	1)CARE BBB+; Stable (23-Mar-23)	-

LT: Long term; ST: Short term; LT/ST: 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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Priti Agarwal Senior Director **CARE Ratings Limited** Phone: 91-033-40181621 E-mail: priti.agarwal@careedge.in Puneet Kansal Director **CARE Ratings Limited** Phone: 91-120-4452018 E-mail: puneet.kansal@careedge.in Shabnam Goyal Lead Analyst **CARE Ratings Limited** E-mail: shabnam.goyal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in