

Precot Limited

September 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB-; Stable (Triple B Minus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3 (A Three) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed withdrawn the outstanding ratings of 'CARE BBB-; Stable [Triple B Minus; Outlook: Stable] assigned to the bank facilities of Precot Limited (Precot) with immediate effect. The above action has been taken at the request of Precot and 'No Objection Certificate' received from the banks that has extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of the company: Precot, with operational track record of nearly six decades is among the larger players in the spinning industry in Tamil Nadu. Precot initially started with modest spindle capacity and gradually increased the capacity and has an installed capacity of 1,88,640 spindles as on March 31, 2021, spread across six manufacturing units.

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 (TTD). The Spinning division contributed to 78% (PY: 80%) of income in FY21 while TTD contributed to 22% (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: The spinning division witnessed improved profitability during FY21 with PBILDT margin improving from 5.35% in FY20 to 10.72% in FY21. The prices of cotton yarn have increased post lifting of covid lockdown since Q2FY21 following increased demand resulting in improved sales realisation of yarn.

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 FY21, the same increased to Rs.140 crore from Rs.119 crore in FY20 registering a growth of 17% backed by increased demand for Hygiene products on the wake of covid-19 pandemic. The PBILDT margin of TTD improved from 14.36% in FY20 to 27.51% in FY21 due to higher contribution of high margin products like Rolled and Finished goods.

Comfortable gearing and debt protection metrics: The capital structure of the company stood comfortable with overall gearing of 1.04x as on March 31, 2021 (PY: 1.09x). Due to better operating profit from Spinning division, the debt coverage indicators improved with Total debt/ GCA of 4.98 as on March 31, 2021 as against 19.24 as on March 31, 2020.

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 of Rs.66.1 crore in FY21 against repayment obligations of Rs.54 crore in FY22. The company has been sanctioned working capital limits of Rs.178.5 crore and the average utilization of the same stood high at 91.16% for the past 12 months ended May 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. The free cash balance stood at Rs.1.09 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

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, 2021 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)	FY20 (A)	FY21 (A)
Total Operating Income	729.61	669.98
PBILDT	52.25	98.96
PAT	(16.54)	32.94
Overall Gearing (times)	1.10	1.04
Interest coverage (times)	1.56	2.94

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 on instruments rated: Not applicable

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	0.00	Withdrawn
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn

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	-	-	1)CARE BBB-; Stable (25-Jun-21) 2)CARE BBB-; Stable (05-May-21)	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	-	-	1)CARE BBB-; Stable / CARE A3 (25-Jun-21) 2)CARE BBB-; Stable / CARE A3 (05-May-21)	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	-	-	1)CARE A3 (25-Jun-21) 2)CARE A3 (05-May-21)	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: Covenants on rated instruments: 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

Annexure 5: Bank Lender Details

[Click here to view Bank Lender Details](#)

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

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

Analyst Contact

Name: Mr. Naveen Kumar
Contact no.: 0422 450 2399
Email ID: naveen.kumar@careratings.com

Relationship Contact

Name: Mr. V Pradeep Kumar
Contact no. : 044 2850 1001
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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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