

Precot Limited

June 25, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	180.95	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	158.50	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
Short-term Bank Facilities	39.69	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	379.14 (Rs. Three hundred seventy-nine crore and fourteen lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Precot Limited (Precot) continue to derive strength from the company's long track record of operations, vast experience of the promoters in textile industry as well as the Precot's long-standing customer relationship with notable presence in the export market. The ratings also take into account the improved operational and financial performance of the company during FY21 (refers to the period April 1 to March 31) and robust performance in Technical Textile division with higher share of value-added products. The ratings, however are 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 the 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

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.

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, 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 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 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	158.50	CARE BBB-; Stable / CARE A3	1)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	39.69	CARE A3	1)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: 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.

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