

**Pasupati Acrylon Limited**  
**January 03, 2019**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	10.62	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	205.00	CARE A2 (A Two)	Reaffirmed
<b>Total facilities</b>	<b>215.62</b> <b>(Rupees two hundred fifteen crore and sixty two lacs only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned 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 going forward and comfortable financial risk profile marked healthy capital structure and debt coverage indicators.

The ratings are, however, constrained on account of working capital intensive operations, foreign exchange and raw material volatility and availability of cheaper substitutes.

Going forward, PAL's ability to achieve the envisaged ramp up in CPP business along with increase in its scale of operations and profitability while maintaining its capital structure would be the key rating sensitivities.

Rating Sensitivities*Positive Factors*

- Improvement in Gross Cash Accruals, thereby leading Total Debt to GCA (including acceptances) to below 1.5x.
- Improvement in PBILDT Margins over 15%.

*Negative Factors*

- Increase in overall gearing (including acceptance) beyond 2x.
- Decline in PBILDT Margins below 4.5%.

**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 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).

***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 had 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 members who have relevant experience in the industry.

***Established relationship with customers & suppliers over the years***

Due to the long track record of operations, PAL has developed an established relationship with its customers and suppliers. The company has been dealing with lot of its customers since last 25 years thus has been getting repeat orders from them.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://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 44% of sales during FY19 and ~40% of sales during H1FY20. The export sales have increased from ~21% in FY18 to ~26% in FY19 and further to ~31% in H1FY20.

#### **Financial risk profile**

The total operating income of the company has increased from Rs.575.89 cr. in FY18 to Rs.831.58 cr. in FY19. The rise in total operating income by ~44% during FY19 is on account of higher volume of sales, high sales realization and income from CPP Film (Flexible packaging) business. However, The PBILDT margins of the company have dropped to 6.49% in FY19 from 9.88% in FY18 mainly on account of increase in average raw material cost which is primarily imported. The total operating income of the company declined to Rs. 343.96 crore in H1FY20 from Rs. 411.51 crore in H1FY19 (i.e. by ~16%) mainly on account of sluggish market conditions in fibre division

The overall gearing as on March 31, 2019 stood at 0.77x which has improved over the last three years on account of improvement in net worth (accretion of profits) and repayment of debt. Overall gearing stood at 0.9x as on Mar 31, 2017 and 0.93x as on Mar 31, 2018.

#### **Diversification of Revenues**

The 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 then. Further, the company had implemented expansion of CPP Films by another 5000 MT, taking total production capacity to 10000 MT as on date. 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 the income of Rs.41.43 cr. from CPP Films for FY19 as against Rs. 8.27 crore in FY18. In FY19, CPP films segment contributed ~10% of the revenue.

#### **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 the fact that the raw material is a crude derivative and the prices are dollar denominated.

Acrylonitrile (ACN) the major raw material (~89% of total cost) being a derivative of crude demonstrates volatility. The company manages to pass the increase in the raw material cost within approximately 1 month. The company imports its majority of its Raw Material consumed, i.e. Rs. 602.54 crore out of total Rs. 651.56 crore (92.5%) in FY19 and Rs. 395.12 crore out of total Rs. 417.72 crore (94.6%) in FY18, 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 26% (PY: 21%) of its revenue from exports, i.e. Rs. 216.03 crore (PY: Rs. 121.84 crore), 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. Nevertheless, the company is exposed to the foreign exchange fluctuation risk. Further, the profitability is expected to moderate in FY20.

##### ***High inventory holding period***

The operations of the company are working capital intensive as the company holds inventory of around 50 days in FY19 as against ~80 days in FY18. The inventory holding days reduced on account of change in country mix from where the ACN is imported, as earlier the same is imported majorly from USA and in FY19 it was majorly imported from Japan, thereby reducing the transit time.

The average collection days for the company has remained around 25 days as the company provides 0-60 days credit to its domestic customers while certain customer makes advance payment. Further, export receivables are either backed by advances or LC (which is discounted). Thus, the company has gross operating cycle of ~75 days in FY19.

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 days during FY19 as against ~85 days in FY18 on account of lower transit time as discussed above.

##### ***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.

#### **Liquidity analysis: Adequate**

The liquidity profile of PAL remained adequate, marked by current ratio of 1.52x as on March 31, 2019. The working capital utilization also remained comfortable during Oct 2018 to Sep 2019 at an average of less than 10%.

The company had free cash and bank balance and current investments 44.64 crore as on March 31, 2019 providing adequate liquidity cushion. However, the same reduced to Rs. 19 crore as on Sept 30, 2019.

**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](#)

[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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	575.89	831.58
PBILDT	56.90	53.97
PAT	28.01	27.38
Overall gearing (times)	0.93	0.77
Interest coverage (times)	12.25	6.61

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

**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-Cash Credit	-	-	-	10.62	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	205.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.62	CARE BBB+; Stable	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)	-	-
2.	Non-fund-based - ST-BG/LC	ST	205.00	CARE A2	1)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)	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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