

Pasupati Acrylon Limited

April 5, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	11.36	CARE BBB+, Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	279.96	CARE A2 (A Two)	Reaffirmed
Total Facilities	291.32 (Rs. Two hundred ninety one Crore and thirty two lakhs only)		

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, comfortable profitability margins 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.

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 has established itself in the industry as leading manufacturer of Acrylic Staple Fibre (ASF). The domestic ASF industry is concentrated among 3 large manufacturers totaling to around 104,000 Metric Tonnes Per Annum (MTPA) of overall capacity. PAL is one of the largest acrylic producers in the country with 42,000 MTPA.

Experienced promoter and Management team

Pasupati Acrylon Limited was promoted in 1982 by Mr. Vineet Jain, Managing Director. Mr. Jain is BBA and has been associated with PAL since 1990. He has around three decades of experience in the acrylic industry. 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.

The revenue profile of the company is fairly diversified in terms of customers as top 5 customers contributed around 35% of total income during FY18. The export sales have declined from 32% in FY17 to 21% in FY18. The company in FY18 has focused on domestic market as the domestic market demand was better.

Comfortable financial risk profile

The total operating income has increased from Rs.464.29 Crore in FY17 to Rs.570.06 Crore in FY18. The rise in total operating income by 22% during FY18 is on account of higher volume of sales, high sales realization and income from CPP Film (Flexible packaging) business. However, the Profitability margin for PAL has dropped by 388 bps in FY18 on account rise in raw material prices (Acrylonitrile). The total operating income in 9MFY19 demonstrated a growth of 54% at Rs.612.18 crore as against Rs.397.45 crore in 9MFY18 on account of account of higher sales realization and high volume of sales. The profitability margin declined by 320 bps during 9MFY19 as compared to 9MFY18 on account of sharp fall in raw material price leading to inventory loss.

The overall gearing has been consistently improving over the last three years on account of improvement in net worth (accretion of profits) and repayment of debt. However, during FY18 the overall gearing slightly deteriorated to 0.93x (PY:

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

0.90x) on account of high LC utilization. The company also uses 100% FD as margin to avail LC in addition to sanction limit of Rs.150.00 Crore. Additional LC is required by the company to procure raw material (ACN) as the production levels are high and raw material prices have an upward trend.

Foray in flexible packing industry would provide revenue diversification and growth

The company has diversified into CPP Film (flexible packaging) and has set up manufacturing capacity of 5000 MTPA which started commercial operations since September, 2017. The total cost of the project was Rs.32 crore funded entirely through internal accruals. The company is currently ramping up the production and FY19 would be the first full year of operations for the CPP project. The company is selling the CPP Films under the B2B model, primarily to converters. The company has reported income of Rs.8 crore from this segment during FY18 (6 months of operations). The company has further expanded its CPP capacity by another 5000 MTPA with a total cost of Rs.20 crore funded through internal accruals in Q4FY19.

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 (~90% of total cost) being a derivative of crude demonstrates volatility. Inability to pass on increase in the raw material cost might have adverse impact on the profitability of the company. The PBILDT margin for PAL has dropped from 13.60% in FY17 to 9.72% in FY18. PBILDT margin remained at 7.13% during 9MFY19.

High inventory holding

The operations of the company are working capital intensive as the company holds inventory of around 80 days. As ACN is an imported raw material, the company maintains an inventory owing to transit time given the fact that majority of raw material is imported from Korea and Europe. The average collection days for the company has remained around 25 days as the company provides 20-30 days credit to its domestic customers while the export receivables are either backed by advances or LC. Furthermore, the company purchases its raw material on LC thereby getting a credit of around 90-180 days. The average creditor days remained in the range of 83-88 days during the last three years.

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. ACN prices have fluctuated from around \$1450 MT in April 2015 to around \$900 MT in April 2016 and trending back to around \$2100 MT level in July 2018. Thereafter, in Q3FY19, ACN price witnessed sharp fall and reached to a price of around \$1300 MT. The price has further firmed up since then and has remained around \$1750 during Q4FY19.

Liquidity: The fund based working capital utilization has remained low around 12% during past 12 months ending February, 2019. The company had cash and bank balance of around Rs.12 crore and liquid investments of around Rs.30 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

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

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

[CARE's methodology for Manufacturing Companies](#)

[CARE's methodology for 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 5000 MTPA which started commercial operations since September, 2017.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	464.29	570.06
PBILDT	63.15	55.39
PAT	34.22	28.01
Overall gearing (times)	0.90	0.93
Interest coverage (times)	11.01	11.93

A: Audited**Status of non-cooperation with previous CRA: NA****Any other information:** Not applicable**Rating History for last three years:** Please refer Annexure-2

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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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	-	-	-	279.96	CARE A2
Fund-based - LT-Term Loan	-	-	March 2019	0.74	CARE BBB+; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.62	CARE BBB+; Stable	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	279.96	CARE A2	1)CARE A2 (01-Oct-18) 2)CARE A2 (06-Sep-18) 3)CARE A2 (02-Apr-18)	-	-	-
3.	Fund-based - LT-Term Loan	LT	0.74	CARE BBB+; Stable	1)CARE BBB+; Stable (01-Oct-18) 2)CARE BBB+; Stable (06-Sep-18) 3)CARE BBB+; Stable (02-Apr-18)	-	-	-

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CIN - L67190MH1993PLC071691