

Pasupati Acrylon Limited
 December 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.62	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	155.00 (Reduced from 205.00)	CARE A2 (A Two)	Reaffirmed
Total Facilities	165.62 (Rs. One Hundred Sixty-Five Crore and Sixty-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 of 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 and comfortable financial risk profile. 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, the company's ability to achieve the envisaged ramp up in CPP business leading to increased 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 2x on sustained basis
- Improvement in PBILDT Margins over 8% on sustained basis

Negative Factors

- Increase in overall gearing (including acceptance) beyond 1x.
- Decline in PBILDT Margins below 3% on sustained basis

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 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 44% of

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

sales during FY20 (FY19: 44%). The export sales have increased from 21.1% in FY18 to 26.3% in FY19 and further to 28.15% in FY20.

Comfortable financial risk profile

The total operating income of the company has declined by 19.71% to Rs.667.65 crore in FY20 as against Rs.831.58 crore in FY19 mainly on account of lower demand and sales realization of ASF as it contributed around 92% of revenue in FY20. The sales of volume of ASF has declined by 13% to 38,771 metric tonne (MT) (PY: 44,505 MT) along with decline in sales realization by 12% to Rs. 154/kg (PY: Rs. 175/Kg) whereas as sales volume of CPP has increased by 36% to 4,420 MT (PY: 3,243 MT) but sales realization has declined by 5% to Rs. 121/Kg. The PBILDT margins has also moderated by 206 bps to 4.43% in FY20 from 6.49% in FY19, mainly on account of decline in revenue from operation which resulted in poor absorption of fixed cost. Further, foreign exchange fluctuation and dumping of Acrylic Fibre from countries such as Belarus, Ukraine, European Union and Peru contributed towards declining of margins.

The overall gearing has improved to 0.58x as on March 31, 2020 from 0.77x as on March 31, 2019 which has improved over the last three years on account of improvement in net worth (accretion of profits) and repayment of debt. PAL has term loan outstanding of Rs.0.4 crore and LC acceptances of Rs.98.73 crore as on March 31, 2020. Further, interest coverage remained comfortable at 5.93x for FY20.

H1FY21: PAL posted total operating income of Rs. 168.36 crore in H1FY21 against total operating income of Rs. 345.47 crore in H1FY20. The decline is due to lockdown imposed to control the spread of COVID -19 however after the pickup of economic activity, the operating income is expected to improve.

Foray in flexible packing industry would provide revenue diversification and growth

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 and implemented the expansion of CPP Films by another 5000 MT, taking total production capacity to 10000 MT. 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 has reported income from CPP Films of Rs. 53.66 crore in FY20 from Rs.41.43 crore in FY19 (FY18: Rs. 8.27 crore).

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 raw material being crude derivative and the prices are dollar denominated. Acrylonitrile (ACN) the major raw material (~74% 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 company imports majority of raw material consumed (around 90%) 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 28% (PY: 26%) of its revenue from exports 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.

High inventory holding

The operations of the company are working capital intensive as the company holds inventory of around 58 days in FY20 as against 49 days in FY19. The average collection days for the company has remained around 28 days as the company provides 15-45 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). Also, the company purchases its raw material on LC thereby getting a credit of around 90-180 days. The average creditor days remained around 74 days during FY20 as against 66 days in FY19 thus elongating the operating cycle to 12 days (PY: 8 days)

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 1.60x as on March 31, 2020. The working capital limit of Rs.10.62crore also remained unutilized during last 12 months period ending October 2020. The debt repayment in FY21 is Rs.0.33 crore against GCA of Rs.21.05 crore in FY20. The company had free cash and bank balance and current investments of Rs.80.00 crore as on October 28, 2020 providing adequate liquidity cushion. The company has not availed any moratorium as per RBI guidelines.

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)	FY19 (A)	FY20 (A)
Total operating income	831.58	667.65
PBILDT	53.97	29.60
PAT	27.38	13.05
Overall gearing (times)	0.77	0.58
Interest coverage (times)	6.61	5.93

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	-	-	-	155.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	10.62	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Jan-20) 2)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	155.00	CARE A2	-	1)CARE A2 (03-Jan-20) 2)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)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	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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