Precot Meridian Limited

July 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	181.62 (reduced from 189.43)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	49.50 (reduced from 59.50)	**CARE A3 (A Three)**	Reaffirmed
Long/Short-term Bank Facilities	158.50 (reduced from 173.50)	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable /A Three)**	Reaffirmed
Total Facilities	**389.62 (Rupees Three Hundred and Eighty nine Crore and Sixty Two lakh only)**		

Details of facilities Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Precot Meridian Limited (Precot), continue to draw strength from the company's long track record of operations spanning over five decades, long-standing experience of the promoters in the textile industry as well as the Precot's long-standing customer relationship with notable presence in the export market.

The ratings are, however, constrained by Precot's relatively lower profitability margins, vulnerable to volatility in cotton/yarn prices, losses at net level, stretched liquidity with working capital intensive nature of operations.

The ratings also take note of the envisaged sale of fixed assets and receipt of advances from the said transaction thereby easing out repayments in the near term. Receipt of the balance proceeds and reduction of debt using the same would remain a rating monitorable. On the operations front, while CARE notes the improvement in the overall performance of the company in FY19 (refers to the period April 1 to March 31) vis a vis FY18, it remains lower than expected amongst other reasons on account of the higher one item freight costs incurred in the TTD division and slump in margins in the yarn division specially in Q4FY19 (refers to the period January 1 to March 31). Going forward, ability of the company to manage this price volatility and report consistent profits from the yarn division and scaling up of operations from the TTD division with higher margin products would remain key rating sensitivity.

The ratings are, however, constrained by Precot's relatively lower profitability margins, vulnerable to volatility in cotton/yarn prices, losses at net level, moderate liquidity with working capital intensive nature of operations.

Going forward, the ability of company to scale up operations with new orders from high-margin technical textiles business which had been reporting net losses over the years, enhance profitability in the yarn division, timely materialization of proposed sale of asset would be the key rating sensitivities

Detailed description of the key rating drivers

Key rating Strengths

Established track record of the company: Precot is among the larger players in the spinning industry in Tamil Nadu with over six decades of operations. Precot initially started with modest spindle capacity and gradually increased the capacity and has an installed capacity of 1,95,451 spindles as on March 31, 2019, spread across six manufacturing units. The day to day operations are overseen by Mr. Ashwin Chandran, MD and CEO of the company who is a qualified textile engineer from the USA and has nearly two decades experience in the business.

Established presence in export markets: The promoter group's long standing presence in textile business and established track record of Precot has helped the company to create strong customer base in domestic as well as export markets. Precot has a strong network of dealers/agents spread across India and export markets who facilitate the sale process of the company. Key export markets being Italy, US, China, Philippines, Bangladesh etc.

Improved operating performance in TTD division: The Company has 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. Though, the unit has been commenced during FY14, the company has not been able to scale up its operations in the TTD unit due to procedural delay in obtaining approvals/license from the European government and audit from clients. However the company had got necessary approvals and the income from TTD had increased from Rs.27.8 crore in FY15 to Rs.91.9 crore in FY19 at the CAGR

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

of 34.83%. The percentage of finished goods which are of high margin increased from 53% in FY18 to 73% in FY19 of TTD sales. The TTD division reported PBILDT of Rs.3.03 crore in FY19. Excluding the one-off freight expense, the company could have achieved segmental PBILDT of Rs.11 crore in FY19.

Sale of fixed assets to ease repayment obligations and reduce debt: During Q1FY20, the company has entered into agreement with a prospective buyer for sale of its corporate office for a consideration of Rs.26 crore (net of tax and expenses) which is expected to be used fully to prepay the term loan obligation. The company already obtained necessary approval from the bank which holds charge of the property and entered into escrow agreement on July 15, 2019 with the buyer and the bank. The company had received a portion of amount as advance and the same has been utilized for the part pre-payment of loans

Key Rating Weaknesses

Losses reported during FY19: The PBILDT margin improved from 3.65% in FY18 to 8.13% in FY19 with improved operational performance from TTD division. Nevertheless the profits are lower than envisaged on account of higher selling expenses on account of flight shipments in TTD division and increased raw material (cotton) prices in Q4FY19. This together with higher interest expenses and depreciation resulted in company reporting net loss of Rs.8.3 crore in FY19 as against net loss of Rs.5.8 crore in FY18.

Concentration of revenues from the yarn segment: During FY19, the company derived 83.5% (PY: 85.0%) of the net sales from sale of yarn. Higher dependence on yarn segment exposes the company to the cyclical nature of industry. This has led to the company posting losses in the past due to poor industry scenario.

Vulnerability of margins to volatility in raw material prices: 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 textile industry is inherently prone to the volatility in cotton and yarn prices. The average yarn prices were higher in FY19 compared to FY18. The polyster fibre and yarn prices have also shown volatility in the past.

Liquidity- Stretched

The liquidity is stretched with tightly matched accruals when compared to repayment obligations and modest cash balance. The current ratio of the company was below unity as on March 31, 2019, mainly on account of higher bank borrowings to support the operations of the company. The company has sanctioned working capital limits of Rs.158.5 crore and the average utilization of the same stood at ~88.5% for the past 12 months ended June 2019. The cash balance stood at Rs.0.7 crore (PY: Rs.1.6 crore) as on March 31, 2019

Analytical approach:

Standalone

Applicable Criteria

CARE's methodology for manufacturing companies
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology for Cotton Yarn Industry

About the Company

Precot was established in 1962 as Premier Cotton Spinning Mills by the brothers, Late Mr V N Ramchandran and Late Mr N. Damodaran. Precot is into the business of spinning of yarn catering to both the domestic and export markets. The company's installed capacity as on March 31, 2019 was 1,95,451 spindles, 195 rotors and windmills of 4 MW. The company commissioned the commercial operations in its technical textile division (TTD) at Hasan, Karnataka from June 2013. Under this segment, the company manufactures high end value added cotton based products such as cosmetic pads, baby pads, pleats, balls, etc., largely catering to the healthcare and hygiene sectors

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	712.7	796.2
PBILDT	25.5	64.7
PAT	(5.8)	(8.3)
Overall gearing (times)	1.19	1.14
Interest coverage (times)	0.61	1.55

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-Term Loan	-	-	March 2024	181.62	CARE BBB-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	158.50	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	49.50	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 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-Term Loan	LT	181.62	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Sep-18)	1)CARE BBB-; Stable (10-Jul-17)	1)CARE BB+ (13-Jul-16)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	158.50	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (21-Sep-18)	1)CARE BBB-; Stable / CARE A3 (10-Jul-17)	1)CARE BB+ / CARE A4+ (13-Jul-16)
3.	Non-fund-based - ST-BG/LC	ST	49.50	CARE A3	-	1)CARE A3 (21-Sep-18)	1)CARE A3 (10-Jul-17)	1)CARE A4+ (13-Jul-16)

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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