RATING RATIONALE

31 December 2020

Pashupati Cotyarn LLP

Brickwork Ratings reassigns the ratings for the existing bank loan facilities aggregating to ₹ 18.04 Crs of Pashupati Cotyarn LLP ("PCYLLP" or "the Firm").

Particulars:

Facility***	Amount (₹ Cr)		Tenure	Rating**	
	Previous	Present		Previous (March, 2019)^	Present
Fund based	17.74	17.54	Long Term	BWR BB+(CE)/Stable [Assigned]	BWR BB/Stable [Reassigned]
Non Fund based	0.50	0.50	Short Term	BWR A4+(CE) [Assigned]	BWR A4+ [Reassigned]
Total	18.24	18.04	INR Eighteen Crores and Four Lakhs Only		

^Rating was moved to the Not Reviewed Category in March, 2020.
**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
*** Details of Bank facilities are provided in Annexure-I.

Ratings: Reassigned on standalone basis

RATING ACTION / OUTLOOK

The suffix "CE" represents the credit enhancement given against the bank loan facility of PCYLLP in the form of a letter of comfort / corporate guarantee extended by Pashupati Cotspin Limited (PCL) to lenders regarding the timely servicing of all the loans. However, the corporate guarantee from PCL can be invoked only after the firm commits a default. Therefore, BWR has now revised the rating approach of PCYLLP and assigned the rating on a standalone level.

PCYLLP's standalone business and credit profile continues to factor the extensive experience of the promoters and established presence of the Pashupati group in the textile industry. The rating also factors into the strategic location of the processing unit providing easy access to source of raw material and customers.
However, the rating is constrained on account of the working capital nature of operations, moderate financial risk profile, low profitability and same is exposed to volatility in price of raw material with presence in highly competitive and fragmented textile industry. The rating also considers the exposure to capital withdrawal risk due to partnership constitution.

Outlook: Stable
The outlook continues to remain "Stable" over the near to medium term owing to the firm's experienced promoters, strategic location of the processing unit and funding support by promoters.

KEY RATING DRIVERS

Credit Strengths:

- **Extensive experience of the promoter in the textile industry**
  The firm is part of the Pashupati group which has been operating in the textile industry for more than two decades. The firm has been promoted by Mr. Saurin Parikh and his family since inception. The day to day operations are handled by Mr. Saurin Parikh and Mr. Dakshesh Patel who collectively possesses more than two decades of experience in the textile industry. Further, he is supported by a team of well qualified and experienced professionals as the second line of management. The vast experience of the promoters have helped the Company to establish and maintain relations with its customers and suppliers.

- **Strategic Location of the manufacturing unit**
  The firm benefits from low transportation cost and easy access to quality raw material i.e. raw cotton and cotton seed as the manufacturing unit is located at Kadi, Gujarat where many ginning units are located. The firm sells its products to local trading and marketing companies located mainly in Kadi, Gujarat; thus providing easy access to customers as well.

Credit Risks:

- **Average financial risk profile**
  The firm has reported a moderate financial risk profile marked by weak debt coverage

indicators. The interest coverage ratio stood at 0.74 times for FY2020(provisional) as against 1.03 times in the previous year. The debt service coverage ratio stood at 1.13 times for FY2020(provisional) as against 1.06 times. However, the firm has reported improvement in its tangible net worth as the same stood at Rs. 26.47 crores as on 31.03.2020(provisional) as against Rs. 15.06 crores in the previous year mainly due to retained earnings and capital addition by the partners. Further, the debt to equity ratio is comfortable at 0.89 times as on 31.03.2020(provisional) as against 1.55 times in the previous year. Also, the promoters have a track record of infusing funds in the form of unsecured loans or capital to support any additional working capital requirements.

- **Low profitability and susceptibility of the same to fluctuations in raw material prices**
  The operating profit margin of the firm stood at 2.66% for FY2020 (provisional) as against 0.74% in the previous year. The raw material cost of the Company forms a major part of its revenue as it stood around 94% of the total operating income for FY2020(provisional). The main raw material used by the firm is cotton and cotton seed. The availability of the raw material and its price is dependent on the agro climatic conditions as the same is an agricultural commodity. Hence, any adverse movement in the prices of the raw material can have a significant impact on the profitability of the firm which has limited bargaining power against the customer.

- **Exposed to intense competition in a fragmented cotton crushing industry**
  The industry is highly fragmented with the presence of several organised and unorganised players with low product differentiation and high price sensitivity. This limits the pricing flexibility and bargaining power with customers, thereby putting pressure on its revenue and margins.

- **Exposed to risk associated with partnership constitution**
  PCYLLP is exposed to the risk of capital withdrawal by the partners and dissolution of the firm in the event of death or insolvency of the partners.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has principally relied upon the audited financials up to FY19 and provisional financials for FY20, publicly available information and clarification/information provided by the Company.

RATING SENSITIVITIES

Positive:

- Significant improvement in the operating income and profitability resulting in the

financial risk profile and liquidity profile of the company
- Significant reduction in external debt of the company.

Negative:
- Significant decline in operating income and profitability leading to deterioration in the debt coverage indicators and liquidity profile of the company.
- Majorly debt funded capex plan resulting in highly leveraged capital structure.

LIQUIDITY POSITION: ADEQUATE

The firm has reported net cash accruals of Rs. 0.94 crores against annual debt repayments as against debt obligation of Rs. 0.34 crores during FY 2020(provisional). The current ratio stood at 3.30 times as on 31.03.2020 (provisional). Further, the firm's average working capital limit utilisation stood at around 85.03 percent for the period from October, 2019 to October, 2020. The firm does not have any major debt capital expenditure plan going forward The firm's projected cash flows are adequate to cover its debt obligations for the next two to three years. Also, the promoters are going to infuse funds in the form of unsecured loans or capital to cover any shortfall in the net cash accruals to meet the debt obligations.

FIRM PROFILE

Pashupati Cotyarn LLP was initially formed as a partnership firm under the name of Pashupati Oil Industries in 2014. Subsequently, the constitution of the firm was converted to limited liability partnership firm under the present name in 2017. The firm is part of the Gujarat based Pashupati group which has an established market presence in the textile industry for more than two decades. The firm is promoted by the Gujarat based Parikh and Patel family. The firm is engaged in crushing of cottonseed, delinting of cottonseed, and manufacturing of two for one (TFO) yarn. The firm also undertakes manufacturing of TFO yarn on a job work basis for its group company Pashupati Cotspin Limited. The manufacturing unit is located at Kadi, Gujarat with installed capacity of 38,016 metric tonne per annum (MTPA) for cotton seed cake, wash oil - 5143 MTPA, cotton liner - 19440 MTPA and TFO yarn - 2015 MTPA. During FY 2019-20, due to the lack of quality cotton availability, the utilization levels were low at around 50~60 percent. The firm purchases cottonseed mainly from related party Pashupati Cotspin Limited. Further, the firm sells to trading and marketing companies located in Gujarat and Rajasthan.

Further, the day to day operations of the firm are being handled by the partners i.e. Mr. Saurin J. Parikh, Mr. Dakshesh Patel, and Mr. Tushar R. Trivedi who possess more than two decades of experience in the textile industry.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2018	FY2019
Result Type		**Audited**	**Audited**
Operating Revenue	Rs. Crs	71.34	242.49
EBITDA	Rs. Crs	1.08	1.78
Profit After Tax	Rs. Crs	0.14	0.24
Tangible Net worth	Rs. Crs	6.93	15.06
Total Debt/Tangible Net worth	Times	1.25	1.55
Current Ratio	Times	3.70	2.05

As per FY20 provisional financials, PCYLLP has reported an operating income of Rs. 250.25 Crores and profit after tax of Rs. 0.37 Crores. PCYLLP has reported tangible net worth of Rs. 26.47 Crores as against total debt of Rs. 23.52 Crores as on 31.03.2020 (provisional).

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :

CRISIL, vide its press release dated February 25, 2020 had denoted the rating of SPFLLP as 'CRISIL BB/ CRISIL A4+; ISSUER NOT COOPERATING'.

RATING HISTORY FOR THE PREVIOUS THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	31 March 2019	2018	2017
Fund Based	Long Term	17.54	BWR BB/ Stable (Reassigned)	BWR BB+(CE)/ Stable (Assigned)	-	-
Non Fund Based	Short Term	0.50	BWR A4+ (Reassigned)	BWR A4+(CE) (Assigned)	-	-
Total		**18.04**	**INR Eighteen Crores and Four lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria for Manufacturing Companies**

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Pashupati Cotyarn LLP

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Punjab National Bank (Earlier Oriental Bank of Commerce)	Cash Credit	15.18	-	15.18
2.		Term Loan I	1.42	-	1.42
3.		Term Loan II	0.94	-	0.94
4.		Bank Guarantee	-	0.50	0.50
TOTAL					**18.04**

Total Rupees Eighteen Crores and Four lakhs only.

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