

RATING RATIONALE

13 March 2020

Pashupati Cotspin Limited

Brickwork Ratings reaffirms the rating to BWR BBB-/A3 with revision in the outlook from Stable to Positive for the existing bank limits of Pashupati Cotspin Limited (“PCL” or “the Company”).

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (December, 2018)^	Present
Fund based	141.64	139.11	Long Term	BWR BBB-/Stable (Pronounced as BWR Triple B minus) [Assigned]	BWR BBB-/Positive (Pronounced as BWR triple B minus) [Rating reaffirmed, outlook revised]
Non Fund based	7.50	7.50	Short Term	BWR A3 (Pronounced as BWR A three) [Assigned]	BWR A3 (Pronounced as BWR A three) [Reaffirmed]
Total	149.14	146.61	INR One hundred and Forty Six crores and Sixty One lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities are provided in Annexure-I.

^Rating was moved to rating not reviewed category in December, 2019

Ratings: Rating reaffirmed and outlook revised

RATING ACTION / OUTLOOK

The rating has been reaffirmed with the revision in the outlook from Stable to Positive. The revision in the outlook is driven by the significant growth in revenue and profitability of the Company during the last two financial years. The Company reported revenue growth of around ~30% for FY2019 and ~50% for FY2018 driven by increase in the installed capacity and production. The installed capacity of the spinning unit was increased from 25,000 spindles to 37,000 spindles and the installed capacity was doubled for the



ginning unit during FY2018. Going forward, revenue growth is expected to remain stable, and the profitability is expected to improve due to power cost savings resulting from the roof top solar plant and windmill being set-up by the Company during FY2021. Also, the promoters of the Company have allotted share warrants to the tune of Rs. 7.38 crores during FY2019 and further Rs. 22.12 crores are expected to be allotted over the two years. Hence share warrants to the tune of Rs. 29.50 crores will be converted into share capital by March 2021.

The rating continues to draw comfort from the established track record of operations of the Company supported by the extensive experienced promoters in the textile industry. Further, the rating also considers the improvement in business risk profile of the Company supported by healthy revenue growth and long standing relation with its customers. The rating also draws comfort from the continuous capital infusion by the promoters resulting in the improvement in the financial risk profile of the Company.

However, the rating is constrained on account of the working capital intensive nature of operations and exposure to agro-climatic risk. The rating also considers leveraged capital structure and moderate debt indicators; however the same is expected to improve going forward.

Outlook: Positive

The 'Positive' outlook reflects BWR's belief the PCL is likely to achieve sustained improvement in its net cash accruals on back of the capital expenditure undertaken by the Company to reduce cost. The Company is also expected to receive capital infusion which will lead to improvement in the financial and liquidity risk profile of the Company.

KEY RATING DRIVERS

Credit Strengths:

- **Established track record of operations supported by experienced promoters**

The Company is part of the Pashupati group which is operating in the textile industry for more than two decades. The Company derives around 58 percent of its revenue from cotton and around 36 percent from cotton yarn. The Company mostly caters to domestic customers however derives around 26 percent of its revenue from deemed exports.

The Company 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 maintain long standing relations with its customer and suppliers.

- **Strong Growth in Revenue and Profitability**

The Company has reported strong growth in operating income of ~30 percent in FY 2019 and ~50 percent in FY2018 as compared to the previous year mainly an account of increase in installed capacity and production. The Company also reported improvement in operating profitability of around 41 percent in FY 2019 over FY2018 and the operating margin also improved to 7.88 percent in FY 2019 as against 7.26 percent in the previous year. PCL has reported operating

income of Rs. 361.00 crores during FY2020 (9M). Going forward, the Company is expected to report marginal growth in revenue however the profitability is expected to improve on account of the savings in the power cost.

- **Strategic Location of the manufacturing unit**

The manufacturing unit in Kadi Gujarat which is the highest cotton producing state in the country resulting in easy availability of raw material. Further, the Company mainly supplies to the spinning units and fabric manufacturing units located in Kadi, Gujarat. Hence, the Company benefits from easy access to source of raw material i.e. raw cotton and also customers.

- **Improvement in the financial risk profile**

The company has reported improvement in the financial risk profile of the Company marked by improvement in the debt to equity ratio and debt coverage indicators. The debt to equity ratio stood at 1.98 times as on 31.03.2019 as against 2.34 times in the previous year. The interest service coverage ratio (ISCR) stood at 2.61 times as on 31.03.2019 as against 2.34 times in the previous year. Further, the debt service coverage ratio (DSCR) stood at 1.16 times as on 31.03.2019 as against 0.79 times in the previous year. Going forward, the financial risk profile of the company is expected to improve further on back of the capital infusion planned by the promoters over the next one years to the tune of Rs. 22.13 crores.

Credit Risks:

- **Profitability of the Company is susceptible to volatility in raw material prices and exposure to agro-climatic risks.**

The profitability of the Company is susceptible to the cotton prices which is volatile in nature. The prices of the cotton is dependent on various factors such as seasonality, climatic conditions, global demand and supply situation and export policy. Further, cotton being an agricultural commodity is also exposed to the risk arising from the Minimum Support Price (MSP) set by the Government for agricultural commodity.

- **Presence in the intensely competitive and fragmented industry**

The cotton ginning and spinning industry is highly fragmented with the presence of numerous players of small to medium size. Hence, the Company is exposed to intense competition thereby limiting its bargaining power with customers and putting the margins under pressure.

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 standalone audited financials up to FY19, publicly available information and clarification/information provided by the Company.

RATING SENSITIVITIES

Upgrade:

- 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.

Stable:

- Lower than expected growth profitability leading to deterioration in the debt coverage indicators and liquidity profile of the company.
- Major debt funded capacity expansion plan resulting in highly leveraged capital structure

LIQUIDITY POSITION: ADEQUATE

The Company has reported substantial growth in net cash accruals from Rs. 18.79 crores in FY 2018 to Rs. 22.12 crores in FY 2019 against Rs. 17.01 crores of annual debt repayments during FY 2019. The current ratio stood at 1.16 times as on 31.03.2019; majority of the current assets are funded through current liabilities. Further, the Company's average working capital limit utilisation stood at around 99.47 percent during the period of twelve month ended as of February, 2020. The cash and bank balance stood at Rs. 1.84 crores as on 31.03.2019. Also, the majorly debt funded future capital expenditure plan is not expected to have any adverse impact on the financial risk profile of the Company. Further, the repayment of around Rs.38.83 crores is estimated to be due for the next two to three years. The Company's projected cash flows are adequate to cover its debt obligations for the next two to three years. The net cash flow from operations stood at Rs. 43.61 crores for FY 2019 against negative net cash flow from operations in the previous year. Also, the promoters are expected to infuse equity of Rs. 22.13 Crs going forward to support the future capital expenditure plans and increase in the working capital requirement.

COMPANY PROFILE

Pashupati Cotspin Limited (Erstwhile Pashupati Cotspin LLP) is a Kadi based company initially incorporated as limited liability partnership in 2013; however the same was reconstituted into a public limited company in July 2017. PCL is listed on the SME Platform of National Stock Exchange (NSE). PCL is part of the Pashupati group operating in the textile industry for more than two decades and is promoted by Mr. Saurin Parikh and his family. The Company is engaged in cotton ginning and spinning of cotton yarn. The products sold by the Company includes cotton bales, cotton yarn and black cotton seeds. The manufacturing unit of the Company is located in Kadi, Gujarat with an installed capacity of 37000 spindles for the spinning unit and 37707 metric tonnes per annum of cotton for the ginning unit. The Company Rooftop solar plant with 1.75 Megawatt (MW) capacity and also plans to set-up a windmill with 2.60 during FY2021. The Company derives around 58 percent of its revenue from sale of cotton bales and around 36 percent from cotton yarn while remaining six percent is derived from sale of yarn waste etc. The Company procures raw cotton from the local farmers and sells to spinning mills and weaving units in Kadi, Gujarat.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2018	FY2019
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	413.48	537.83
EBITDA	Rs. Crs	30.04	42.38
PAT	Rs. Crs	-4.89	9.46
Tangible Net worth	Rs. Crs	52.09	68.93
Total Debt/Tangible Net worth	Times	3.06	1.98
Current Ratio	Times	1.22	1.16

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 : Not Applicable

RATING HISTORY

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2019	05, December, 2018	2017
Fund Based	Long Term	139.11	BWR BBB/ Positive (Rating reaffirmed; outlook revised)	-	BWR BBB- /Stable (Assigned)	-
Non Fund Based	Short Term	7.50	BWR A3 (Reaffirmed)		BWR A3 (Assigned)	-
Total		146.61	INR One Hundred and Forty Six crores and Sixty One 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 Cotspin Limited

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.	Oriental Bank of Commerce	Cash Credit I	50.30	-	50.30
2.		Cash Credit II	22.50	-	22.50
3.		Term Loan I	11.28	-	11.28
4.		Term Loan II	1.05	-	1.05
5.		Term Loan III	0.92	-	0.92
6.		Term Loan IV	32.98	-	32.98
7.		Term Loan V	1.24	-	1.24
8.		Term Loan VI	2.11	-	2.11
9.		Proposed Term Loan	14.62	-	14.62
10.		Bank Guarantee	-	7.50	7.50
11.	Yes Bank Limited	Term Loan I	2.11	-	2.11
TOTAL					146.61

Total Rupees One Hundred and Forty Six Crores and Sixty One Lakhs only.



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