

Rating Advisory

June 29, 2019 | Mumbai

Pasupati Spinning and Weaving Mills Limited

Advisory as on June 29, 2019

This rating advisory is provided in relation to the rating of Pasupati Spinning and Weaving Mills Limited

The key rating sensitivity factors for the rating include:

- Revenue and profitability
- Working capital management
- Capital expenditure (capex) plans and their funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Pasupati Spinning and Weaving Mills Limited (PSWML) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If PSWML continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Company

PSWML was incorporated in New Delhi in 1979, promoted by Mr Ramesh Kumar Jain. The company manufactures cotton yarn, polyester grey and dyed sewing thread, and knitted fabric. It has a sewing thread manufacturing facility in Kala Amb and polyester viscose yarn and cotton yarn manufacturing units in Dharuhera, Haryana.

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Rating Rationale

June 29, 2018 | Mumbai

Pasupati Spinning and Weaving Mills Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.54.82 Crore
Long Term Rating	CRISIL BB-/Stable (Reaffirmed)
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its ratings on the bank facilities of Pasupati Spinning and Weaving Mills Limited (PSWML) at 'CRISIL BB-/Stable/CRISIL A4+'.

The ratings continue to reflect the extensive experience of the promoters in the textile industry, a diversified product profile, and a moderate financial risk profile. These rating strengths are partially offset by susceptibility to volatility in raw material prices, working capital-intensive operations, and shortage of skilled labour in the area of operations.

Analytical Approach

Unsecured loans of Rs 8.3 crore as on March 31, 2017, have been treated as neither debt nor equity. That's because they are interest free, extended by the promoter, and expected to remain in the business over the medium term.

Key Rating Drivers & Detailed Description

Strengths

* **Extensive industry experience of the promoter and a diversified product profile:** The promoters have an experience of nearly four decades in the textile industry, resulting in a longstanding relationship with vendors and customers. The promoters have helped to diversify the customer profile: no single customer contributes more than 25% of total revenue. The products include sewing thread, knitwear and garments. From fiscal 2017, the company manufactures cotton yarn only on job work.

* **Moderate financial risk profile:** The gearing was 1.3 times as on March 31, 2018. The debt protection metrics were adequate, with interest coverage and net cash accrual to total debt ratios of 1.5 times and 0.11 time, respectively, for fiscal 2018.

Weaknesses

* **Susceptibility to volatility in raw material prices:** The main raw material, polyester, accounts for around 35% of total production cost, and is procured from Reliance Industries Ltd through dealers. The price of this material is linked to that of crude, which remains volatile and hence can impact the operating margins of the company.

* **Working capital-intensive operations:** Gross current assets were high at around 186 days, driven by debtors and inventory of around 90 and 96 days, respectively, as on March 31, 2018.

* **Shortage of skilled labour in area of operations:** There is labour shortage in Kala-Amb, Himachal Pradesh, where the manufacturing unit is located. To avoid production losses due to this, the company initiated various schemes, such as in-house training and staff quarters to retain manpower. This led to better capacity utilisation (90-95% at present as against 70% previously). Furthermore, in May 2018 the company has hired a contractor to provide labour on a regular basis. Successful retention of skilled labour is likely to support capacity utilisation levels at the plant, resulting in healthy revenue growth.

Outlook: Stable

CRISIL believes PSWML will continue to benefit from the extensive industry experience of the promoters. The outlook may be revised to 'Positive' if a significant increase in profitability and revenue leads to higher-than-expected cash accrual, and if the working capital cycle improves, strengthening key credit metrics. The outlook may be revised to 'Negative' if a decline in profitability or a stretch in the working capital cycle results in lower cash accrual, or if any large capital expenditure weakens the financial risk profile.

About the Company

PSWML was incorporated in New Delhi in 1979, promoted by Mr Ramesh Kumar Jain. The company manufactures cotton yarn, polyester grey and dyed sewing thread, and knitted fabric. It has a sewing thread manufacturing facility in Kala Amb and polyester viscose yarn and cotton yarn manufacturing units in Dharuhera, Haryana.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	125.3	152.4
Profit After Tax (PAT)	Rs crore	0.62	0.75
PAT Margin	%	0.5	0.5
Adjusted debt/adjusted networkth	Times	1.32	1.41
Interest coverage	Times	1.58	1.70

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	2.51	CRISIL A4+
NA	Cash Credit	NA	NA	NA	28.92	CRISIL BB- /Stable
NA	Foreign Bill Discounting	NA	NA	NA	5.17	CRISIL BB- /Stable
NA	Letter of Credit	NA	NA	NA	4.46	CRISIL A4+
NA	Packing Credit	NA	NA	NA	3	CRISIL A4+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	4.85	CRISIL BB- /Stable
NA	Term Loan	NA	NA	Mar-2021	5.91	CRISIL BB- /Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2018 (History)		2017		2016		2015		Start of 2015
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	47.85	CRISIL BB- /Stable/ CRISIL A4+			24-03-17	CRISIL BB- /Stable/ CRISIL A4+			30-11-15	CRISIL BB- /Stable/ CRISIL A4+	CRISIL B+ /Stable / CRISIL A4
Non Fund-based Bank Facilities	LT/ST	6.97	CRISIL A4+			24-03-17	CRISIL A4+			30-11-15	CRISIL A4+	CRISIL A4

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	2.51	CRISIL A4+	Bank Guarantee	2.51	CRISIL A4+
Cash Credit	28.92	CRISIL BB- /Stable	Cash Credit	29.92	CRISIL BB- /Stable
Foreign Bill Discounting	5.17	CRISIL BB- /Stable	Foreign Bill Discounting	5.17	CRISIL BB- /Stable
Letter of Credit	4.46	CRISIL A4+	Letter of Credit	4.46	CRISIL A4+
Packing Credit	3	CRISIL A4+	Packing Credit	2	CRISIL A4+
Proposed Long Term Bank Loan Facility	4.85	CRISIL BB- /Stable	Proposed Long Term Bank Loan Facility	4.85	CRISIL BB- /Stable
Term Loan	5.91	CRISIL BB- /Stable	Term Loan	5.91	CRISIL BB- /Stable
Total	54.82	--	Total	54.82	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Rating Criteria for Cotton Textile Industry
CRISILs Criteria for rating short term debt

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