



## Press Release

### Panasian Impex Private Limited

April 13, 2021

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Proposed Long Term Bank Facility- Fund based Limit	1.86	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned
2.	Short Term Bank Facility-Fund Based Limit	55.00	IVR A4 (A Four)	Assigned
3.	Short Term Bank Facility-Non Fund Based Limit	1.14	IVR A4 (A Four)	Assigned
	<b>Total</b>	<b>58.00 (Rupees fifty eight crores only)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the above bank facilities of Panasian Impex Pvt Ltd (PIPL) derives comfort from its experienced promoters and proximity to cotton growing areas. However, these rating strengths are partially offset by susceptibility of its profitability to fluctuations in cotton prices and government regulations coupled with exposure to intense competition and high geographical concentration risk. The ratings also factor in decline in its operating income and profit margins in FY20, working capital intensive nature of operation leading to highly aggressive capital structure with below average debt protection metrics and subdued cotton industry scenario.

#### Key Rating Sensitivities:

##### Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in the capital structure with overall gearing ratio below 3x and/or improvement in debt protection metrics with interest coverage ratio over 2x
- Effective working capital management with improvement in operating cycle and liquidity



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### **Downward Factors**

- Dip in operating income and/or profitability impacting the debt coverage indicators,
- Further moderation in the capital structure
- Elongation in the operating cycle impacting the liquidity and higher average utilization in bank borrowings on a sustained basis.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced promoters**

PIPL's promoters have extensive experience in the textile and cotton-trading business. The company is also involved in ginning and pressing of raw cotton, which diversifies its revenue base.

##### **Proximity of cotton growing areas**

The company's plant is located at Malkapur, one of the largest cotton producing belts of Maharashtra. This ensures easy availability of raw cotton at reduced freight cost for trading of raw cotton and producing cotton bales.

#### **Key Rating Weaknesses**

##### **Susceptibility to fluctuations in cotton prices and government regulations**

The margins are highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability.

##### **Intense competition**

The cotton industry is highly fragmented and competitive with the presence of large number of organized and unorganized players. Intense industry competition coupled with commoditized nature of the products limits PIPL's pricing flexibility and bargaining power.

### **Decline in operating income and profit margins in FY20**



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The total operating income of the company has witnessed an erratic trend over the last three years from FY18-FY20. The same declined in FY20 to Rs.128.69 crore from Rs.174.92 crore in FY19 with lower export since January due to impact of COVID pandemic. However, the EBITDA margin of the company improved in FY20 from 2.33% in FY19 to 3.77% in FY20, due to higher decline in raw material procurement price vis-à-vis total operating income. The PAT margin of the company remained below unity over the years due to its high interest outgo and stood thin at 0.13% in FY20. In 11MFY21, the company has achieved Total Operating Income of Rs.165.91 crore with EBITDA margin of 3.16%, PBT margin of 0.59% and Interest Coverage of 1.31x.

### **Highly aggressive capital structure**

PIPL's capital structure remains aggressive during the past few years, marked by a gearing of 6.33 times as on March 31, 2020 because of high working capital borrowings.

### **Working capital intensive nature of operation and below average debt protection metrics**

Operations of the company are working capital intensive marked by its high collection period of about 3 to 4 months. The same led to higher utilization in bank limits to ~47% for the last 12 months ended December 31, 2020. The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA stood at 1.14x and 86.50 years respectively in FY20.

### **High geographical concentration risk**

In FY2020, Bangladesh alone accounted for 99% of the total sales, which reflects its high geographical concentration risks. PIPL also sells fully pressed cotton bales to various traders and textile mills in the domestic market, though the contribution from the same has remained nominal.

### **Subdued cotton industry scenario**

The domestic cotton spinning industry is highly dependent on exports, particularly to China, with ~30% of the yarn produced in India being exported. The coronavirus outbreak in China fueled the pressure on domestic and export yarn realizations and triggered moderation in realizations in recent times. Prolonged subdued industry scenario may impact the profitability of the company.

**Analytical Approach:** Standalone



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### Applicable Criteria:

Rating Methodology for Trading and Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by adequate cash accruals against nil repayment obligations with average utilisation of fund-based limits of around 47% during the past 12 months ended December 2020.

### About the Company

Established in 2008, PIPL exports raw cotton. PIPL also has a ginning and pressing factory located in Malkapur, Maharashtra and became operational in December 2009. The unit has an installed capacity of 42 double-roller gins and an annual ginning and pressing capacity of 50,000 bales.

### Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	174.92	128.69
EBITDA	4.07	4.85
PAT	0.47	0.17
Total Debt	46.91	55.49
Tangible Net worth	8.59	8.76
EBITDA Margin (%)	2.33	3.77
PAT Margin (%)	0.27	0.13
Overall Gearing Ratio (x)*	5.46	6.33

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Proposed Fund Based Limit	Long Term	1.86	IVR BB/ Stable	-	-	



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							-
2.	Fund based limit	Short Term	55.00	IVR A4	-	-	-
3.	Non-Fund Based Limit	Short Term	1.14	IVR A4	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Long term Fund based Limits	-	-	-	1.86	IVR BB/ Stable
Short Term Fund Based Limits	-	-	-	55.00	IVR A4
Short Term Non-Fund Based Limits	-	-	-	1.14	IVR A4