

April 07, 2017

Pan Agri Export

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund Based Limits	36.00	[ICRA]BBB-(Stable); Reaffirmed
Non Fund Based Limits	4.00	[ICRA]A3; Reaffirmed
Unallocated Limits	10.40	[ICRA]BBB-(Stable)/A3; Reaffirmed
Total	50.40	

*Instrument details are provided in annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) on the Rs. 36.00-crore¹ cash credit facility of Pan Agri Export (PAE)². The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the short-term rating of [ICRA]A3 (pronounced as ICRA A three) on the Rs. 4.00 crore non-fund based facilities of PAE. ICRA has also reaffirmed the ratings of [ICRA]BBB-(Stable)/[ICRA]A3 to the unallocated amount of Rs. 10.40 crore.

Detailed rationale

The reaffirmation of ratings continue to factor in the promoter's long standing experience of over two decades in the cotton ginning business; and the operational and financial synergies its derives by virtue of being part of the Jaycot group, which is a established group with presence across diversified businesses. The rating continues to factor in the strong market position of the company in the cotton ginning and pressing business; its presence in the cotton seed crushing business; and the trading of different agro commodities, which provide revenue diversification. Additionally, the ratings reflect the benefits arising from the firm's proximity to cotton producing regions.

The ratings, nevertheless, were constrained by the decline in revenue in the current fiscal due to demand slowdown. Furthermore, the ratings take into account the low profitability on account of limited value-adding operations, high competitive intensity as well as moderate coverage indicators. The ratings also take note of the exposure of margins to adverse movement in foreign exchange rates as majority of the revenue is derived from the export market. The risk is, however, mitigated to a large extent through forward contracts. Furthermore, PAE being a partnership firm, any substantial withdrawals from its capital account would impact the net-worth and thereby the capital structure.

Going forward, the ability of the firm to increase its scale of operations, maintain adequate profitability and improve its capital structure, given the seasonality in the business, volatility in prices of cotton bales and intense competition will be the key rating sensitivity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Key rating drivers

Credit strengths

- Around two decades of experience of the promoters in the cotton ginning industry
- Operational and financial support of Jaycot Group, which has established its presence across diversified businesses
- Healthy scale of operations and strong market position, along with proximity to raw material sources
- Presence in cottonseed crushing business and trading of different agro commodities provide revenue diversification

Credit weaknesses

- Financial risk profile characterised by low profitability on account of limited value-adding operations, high competition and moderate coverage indicators
- Decline in revenue in current fiscal due to slowdown in demand
- Exposure of profitability to adverse movement in foreign exchange rates
- Partnership firm; any substantial withdrawals from capital account would impact the net-worth as well as the capital structure

Detailed description of key rating drivers highlighted above:

Pan Agri Export (PAE) manufactures and exports cotton bales as well as crushes cottonseeds to manufacture wash oil and cottonseed cake. However, the firm has not undertaken ginning operations in the last two fiscals as the firm was involved only in trading of cotton bales. The major portion (~73%) of the firm's revenue was derived from trading of cotton bales in FY2016. The firm is a part of the Jaycot group, which has diversified business interests across cement manufacturing, laminate manufacturing, agricultural equipment manufacturing and agro-commodity trading.

The firm's product profile mainly comprises cotton bales, cotton seed, cotton seed oil cake, wash oil and groundnut. Majority of the revenue is derived from the sale of cotton bales, followed by cotton seed oil cake. Cotton bales are primarily sold in overseas market and contribute ~84% of the total sales. Cotton seed oil cake and wash oil are entirely sold in the domestic market. The firm has presence in various countries such as Pakistan, Vietnam, China, Bangladesh, and Indonesia. PAE reported healthy revenue of Rs. 347.7 crore in FY2016, which marginally increased by ~2.1% from the previous year (FY2015) supported by increase in sales volume of cotton bales.

Analytical approach: For arriving at the ratings, ICRA has considered the financial risk profile of PAE and has assessed its business risk profile and the management profile.

Links to applicable criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

About the company:

Pan Agri Export (PAE) was established in 2004 as a partnership concern and is promoted and managed by Mr. Chirag M Patel and Mr. Alpesh M Patel. The firm produces cotton and cottonseed oil as well as trades in cotton products and other agro commodities. The manufacturing unit of the firm is located at Rajkot in Gujarat. The production unit is equipped with 76 ginning machining and 18 expellers with an installed capacity of 25,080 MTPA and 3,060 MTPA of cotton and cottonseed oil, respectively.

The Jaycot Group has diversified business interests across cement manufacturing, laminate manufacturing, agricultural equipment manufacturing and agro-commodity trading. The group, however, has an established position as one of the major manufacturers as well as exporters of cotton bales through its two major group concerns—JCFPL as well as Pan Agri Export. Finished bales are sold under the brand name, “JAYCOT”, while cotton seed cake is sold under brand name “RAJA”. In the cement segment too the group has a well-established brand, under the name of “Hi-Bond Cement”. Both the companies are engaged in cotton ginning, pressing and crushing, as well as in the trading of various other agro-based products. The combined installed ginning capacity of both the entities is 57,750 MT of finished cotton bales per annum.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Date & Rating in	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2014	
				April 2017	June 2016	April 2015	March 2014	
1	Cash Credit limits	Long Term	36.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB-(Stable)	
2	PCL/PCFC-FDBN/FDBP/FDBD/PSCFC*	Short Term	(7.50)	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4	
3	Letter of Credit*	Short Term	(5.00)	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4	
4	Credit Exposure Limit	Short Term	4.00	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4	
5	Unallocated Limits	Long Term & Short Term	10.40	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	

*Sublimit of CC

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit limits	-	-	-	36.00	[ICRA]BBB- (Stable)
PCL/PCFC- FDBN/FDBP/FDB D/PSCFC*	-	-	-	(7.50)	[ICRA]A3
Letter of Credit*	-	-	-	(5.00)	[ICRA]A3
Credit Exposure Limit	-	-	-	4.00	[ICRA]A3
Unallocated Limits	-	-	-	10.40	[ICRA]A3

**Sublimit of CC*

#EPC- Export Packaging Credit, FBD- Foreign Bill Discounting, FBP- Foreign Bill Purchase, PCFC- Pre-shipment credit in foreign currency

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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