

A B Cotspin India Limited

March 03, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	72.94 (Enhanced from 31.97)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	7.00	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	79.94 (Rs. Seventy-Nine Crore and Ninety-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of A B Cotspin India Limited (ABCIL) have been revised on account of improvement in the scale of operations and profitability margins with the improvement in the demand and prices in the textile industry post initial adverse impact of Covid-19 pandemic, moderate capital structure led by issuance of equity through IPO, and debt coverage indicators along with adequate liquidity position. The rating further derives strength from experienced promoters long track record of operations in the textile industry and its location advantage of being in the textile hub, integrated nature of operations and diversified product profile.

The rating, however, remains constrained due to risk of customer concentration, large capital expenditure project, susceptibility of profitability to volatile raw material prices and regulatory changes along with presence in fragmented and cyclical textile industry.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade

- Volume driven increase in scale of operations with total operating income (TOI) beyond Rs.250 crore and PBILDT margin over 12% on sustained basis
- Improvement in overall gearing below 1.00x on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade

- Decline in operating profitability with a PBILDT margin of below 5% on a sustained basis or meaningful decline in scale of operations
- Elongation in net operating cycle to more than 120 days on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in the scale of operations and profitability margins

Though operations were disrupted amid COVID pandemic, with improved demand prospects and sales realization in later half of FY21, ABCIL was able to maintain its scale of operations during FY21. As a result, total operating income (TOI) of the company improved to Rs. 115.57 crore in FY21 against Rs. 94.28 crore during FY20. Further, net worth base has improved and stood Rs.28.32 crore as on March 31, 2021. Also, the company has achieved sale of Rs.118.46 crores during 10MFY22, led by increase in realization of cotton yarn. The improvement was due to increase in the spread between raw cotton and yarn prices and are expected to sustain at this level with sustained scale.

With the improvement in scale of operation the margins have improved with PBILDT margin of 11.66% and PAT margin of 5.68% during 10MFY22 as compared to 8.92% and 3.36% respectively during FY21. The improvement in the margins is on account of recovery in the demand in H2FY21 with higher realization and pent up demand in textile industry resulting into better margins. Apart from this the company has raised equity of Rs.10cr through IPO during Jan, 2022 to meet the working capital requirement and equity contribution towards the ongoing capital expenditure project.

Improvement in demand and prices after initial adverse impact of Covid-19 pandemic on textile sector

Indian cotton yarn prices have surged significantly in the recent months on the back of improving demand from the domestic downstream segments as well as continued healthy export demand. Further, with the closure/ scale-down of some spinning capacities owing to distressed financial position, there is a relatively lower increase in cotton yarn production vis-à-vis demand, creating a shortage situation and hence triggering a surge in cotton yarn prices. Although cotton as well as yarn prices started firming up from September 2020 onwards, increase in yarn prices has been higher than that in cotton prices.

Further, demand for textile products which witnessed improvement during H2FY21 has again improved after some moderation due to second wave of Covid-19 pandemic on the back of continued strong export demand, opening of commercial establishments, pent-up demand, festive and wedding seasons, and favorable progress on the vaccination rollout front. Moreover, recovery in

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

demand is expected to be sustainable in near term in anticipation of recovery in domestic demand and continued strong export demand. However, continued demand recovery is contingent upon the extent of impact of third wave of Covid-19 pandemic.

Moderate capital structure and debt coverage indicators

The capital structure of the company remained moderate marked by an overall gearing ratio at 1.06x as on March 31, 2021 (PY: 1.62x as on March 31, 2020). The improvement is mainly on account of improvement in net-worth with lower reliance on external debt. However, with the additional debt of Rs.37cr for ongoing capital expenditure project, the gearing is expected to increase in the future, despite of the equity infusion of Rs.10cr, but still expected to remain comfortable at 1.34x at the end of FY22 (expected).

Further, the coverage indicators marked by interest coverage and total debt to GCA stood moderate in FY21 at 4.85x (PY:3.22x) and 4.52x (PY: 8.19x) respectively on account of improvement in the profitability along with gross cash accruals of the company. Further in 10MFY22, interest coverage and total debt to GCA stood 8.03x and 1.58x respectively.

Vast experience of promoters and long track record of operations in textile industry

ABCIL was established in 1997 and it has established long standing presence in the textile industry which has led to established relationships with the customers as-well-as suppliers. The company is currently being managed by Mr. Deepak Garg, a Managing Director of the company, who has an industrial experience of more than two decades. Further, Mr. Manohar Lal, who is a whole-time director of the company, possess vast experience of around three decades in cotton industry and Mr. Ramesh Kumar, a non-executive director, hold an experience of a decade in cotton industry. The directors are actively involved in the day-to-day operations of the company and are ably supported by a qualified management team.

Location advantage of being in the textile hub

The company operates from its manufacturing unit in Bathinda, Punjab. The company sells its products directly to textile units located primarily in Punjab and Haryana. Both these states are well established textile hubs with presence of a large number of spinning and garmenting units. The company therefore benefits from the location advantage in terms of easy accessibility and close proximity to a large customer base. Further, the company is operating in a cotton cultivation belt which leads to easy and ample availability of raw materials as well as lower freight costs.

Integrated nature of operations and diversified product profile

ABCIL is engaged in the business of cotton ginning and manufacturing of cotton yarn and fabrics. It has a ginning capacity of 8500 Metric Ton Per Annum (MTPA) which meets full requirement of spinning unit which has an installed capacity of 4,290 MTPA. Further, the requirement of yarn of knitted fabric manufacturing unit is met in house. The spinning capacity was utilized around 70-80% during the last three years ended FY21. The company also engages in extraction of oil and production of cakes from cotton seeds (by product of the ginning process). Hence, the product profile of the company is diverse which comprises ginned cotton, cotton seeds, cotton seed oil, cotton yarn and knitted cotton cloth. The yarn is further manufactured in various types including 100% cotton yarn of counts 20-30s, double yarn of counts 20-30s, slub yarn etc. The company also produces varies type of knitted fabric which includes combed, carded, slub fabric. The company generates revenue of around 60-75% from cotton yarn, around 5-10% from cotton seed cake and balance from other products.

The operations of the company were disrupted during the period of Q1FY22 due to Covid-19. However, the company has witnessed an improvement in its sales post July 2021 on the back of gradual improvement of the demand in textile industry. The diversity in product profile and integrated nature of business provides cushion to withstand any volatility in business environment.

Key Rating Weaknesses

Customer concentration risk

The company is exposed to the customer concentration risk as the top five customers contribute around 55-70% of total sales during the last three years ended FY21. Further, the company doesn't have any short term/long term contract with their customers and hence, any change in procurement policy or any deterioration in the financial profile of any of these customers may adversely impact the business of the company.

Susceptibility of profitability to volatile raw material prices and regulatory changes

ABCIL's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players. Furthermore, the textile industry also witnesses regulatory risks such as change in domestic and international government policies related to subsidies or imports / exports tariffs, which also affects the industry players across the value chain.

Presence in fragmented and cyclical textile industry

The textile industry in India is highly fragmented and dominated by a large number of medium and small-scale unorganized players leading to high competition in the industry. Furthermore, textile is a cyclical industry and closely follows the macroeconomic business cycles. The prices of raw materials and finished goods are also determined by global demand supply scenario. Hence, any shift in macroeconomic environment globally would have an impact on the domestic textile industry. Also, there is stiff competition from Bangladesh, Vietnam and Pakistan in terms of cotton exports. Exports of Indian cotton yarn to the European Union (EU) and China declined in the past years as the market share of Indian spinners has been taken over by Vietnam,

as the nation enjoys duty-free access to the Chinese market. Hence, the domestic and export demand for yarn and textile remains crucial for the yarn manufacturers.

Debt funded capital expenditure

ABCIL is presently expanding its spinning unit by increasing capacity from 18000 spindles to 36000 spindles. The aggregate capex of Rs.60 crores is being funded by a term loan of Rs.37 crores and balance by unsecured loans & internal accruals. The financial closure has been achieved and out of the sanctioned limit of Rs.37 crores, only Rs 3 crores has been disbursed as on Jan 31, 2021. Further, the company has incurred ~Rs.12 crore on this project as on Dec 31, 2021 funded through debt of Rs.3cr and remaining through internal accruals. The company is maintaining enough liquidity to meet the equity requirement for the project as it has free cash balance of Rs.3.28 crores as on January 31, 2022 and its credit lines of Rs.21 crores are completely unutilized as on February 17, 2022.

Liquidity: Adequate

ABCIL's liquidity remained adequate marked by sufficient cushion in accruals of Rs.10.82 crore in FY22 vis-à-vis repayment obligations of Rs.4.06 crores and moderate working capital utilization.

However, the operating cycle remained elongated at 100 days during FY21 primarily on account of inventory period. The company maintains high raw material inventory i.e. around 60-80 days owing to the seasonal nature of it and to ensure smooth production whereas it holds low level of finished goods inventory i.e. around 20 days due to order -based nature of sales. Overall, this results into inventory holding period of around 75-80 days (average inventory holding period of 81 days in FY21). The company receives the limited credit period of around 6 days from its suppliers. The collection period improved on account of timely receipt of payment from its customers and stood 25 days in FY21.

During the first half of FY22, the working capital limits were almost fully utilized, however post Sep'21 due to liquidation of inventory, liquidity from equity and internal accruals, the utilization has fallen below 10% since Oct'21 and presently the limits are completely unutilized. ABCIL got a sanction of working capital term loan of Rs.4.18 crore under Guaranteed Emergency Credit Line (GECL) scheme and has proposed GECL of Rs.2.09 cr which will support its liquidity. Further free cash and bank balance stood Rs.3.28 crores and free FDR of Rs.5.54 crores as on Jan 31, 2022.

Analytical Approach:

Standalone.

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

About the Company

A B Cotspin India Limited (ABCIL) was initially incorporated as Ganga Cotex Limited in 1997 and was engaged in the business of cotton ginning and extraction of cotton seed oil. The company was subsequently reconstituted under its current name in 2010. The company commenced cotton spinning operations in the year 2011 while it started manufacturing cotton fabrics in 2014.

ABCIL operates from a single integrated manufacturing facility in Bathinda, Punjab at an installed capacity of 8500 Metric Ton Per Annum (MTPA) of cotton, 4,290 MTPA of yarn, 441 MTPA of fabric and around 500 qts/day of crushing the seed of which it gets 9%-10% of oil in crushing, as on March 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	10MFY22
Total operating income	94.28	115.57	118.46
PBILDT	5.86	10.31	13.81
PAT	0.85	3.88	6.74
Overall gearing (times)	1.62	1.06	0.38
Interest coverage (times)	3.22	4.85	8.03

A: Audited

Status of non-cooperation with previous CRA: BWR Ratings has conducted the review and has maintained A B Cotspin India Limited as "Not Cooperating" vide its press release dated April 29, 2021.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	26.50	CARE BBB-; Stable
Fund-based - ST-Working Capital Limits		-	-	-	7.00	CARE A3
Fund-based - LT-Term Loan		-	-	October 2031	46.44	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Working Capital Limits	LT	26.50	CARE BBB-; Stable	-	1)CARE BB+; Stable (25-Mar-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)	1)CARE BB+; Stable (07-Sep-18)
2	Fund-based - ST-Working Capital Limits	ST	7.00	CARE A3	-	1)CARE A4+ (25-Mar-21)	1)CARE A4+; ISSUER NOT COOPERATING* (16-Jan-20)	1)CARE A4+ (07-Sep-18)
3	Fund-based - LT-Term Loan	LT	46.44	CARE BBB-; Stable	-	1)CARE BB+; Stable (25-Mar-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)	1)CARE BB+; Stable (07-Sep-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Fund-based - ST-Working Capital Limits	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Name – Mr. Mradul Mishra
Contact no. - +91-22-6754 3596
Email ID - mradul.mishra@careedge.in

Analyst Contact

Group Head Name – Mr. Amit Jindal
Group Head Contact no.- +91- 11-4533 3242
Group Head Email ID- amit.jindal@careedge.in

Relationship Contact

Name: Ms. Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

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