A B Cotspin India Limited

October 04, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	68.93 (Reduced from 72.94)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	7.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**75.93 (₹ Seventy-Five Crore and Ninety-Three 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) continues to derive comfort from improvement in the scale of operations and profitability margins, 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, continues to 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.200 crore on sustained basis
- Improvement in the PBILDT margin of increasing to 12% with PAT margin over 5% 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
- Any large debt-funded capital expenditure (capex), leading to moderation of the capital structure with a gearing level above unity

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in the scale of operations and profitability margins

The scale of operations of the company improved as marked by a total operating income of Rs. 140.69 crore in FY22 against Rs. 115.836 crore during FY21. Further, net worth base has improved and stood Rs.50.48 crore as on March 31, 2022 on account of infusion of unsecured loans which are subordinated to the tune of Rs.11.66 cr as on March 31, 2022.

The modest scale limits the company's financial flexibility in times of stress and deprives it of scale benefits. The improvement in the revenue pertains to comparatively higher quantity sold to the existing customers along with improved sales realization across product categories during the period. However due to overall slowdown in the textile industry, the performance of the company has remain subdued during the first 5 months with sales of Rs. 62.19 crores and GCA of Rs.3.35 crores.

With the improvement in scale of operation the margins have improved and the company has reported PBILDT margin of 10.16% (PY: 8.76%) and PAT margin of 4.85% (PY: 3.36%). The improvement in the margins is on account of recovery in the demand 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. 5MFY23, the company has PBILDT margin of 7.78% and PAT margin of 3.22%. Apart from this the company has raised equity of Rs.10cr through IPO during Jan, 2022 to meet the working capital requirement.

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

Moderate capital structure and debt coverage indicators

The capital structure of the company remained moderate marked by an overall gearing ratio at 0.37x as on March 31, 2022 (PY: 1.06x as on March 31, 2021). However, improvement is on account of comparatively improvement in the net worth on the back of unsecured loans being subordinated to the tune of Rs.11.66 crores along with low reliance on external borrowings of the company. Also, in 5MFY23, the overall gearing stood 0.94x.

Further, the coverage indicators marked by interest coverage and total debt to GCA stood moderate in FY22 at 6.61x (PY:4.76x) and 1.90x (PY: 4.52x) respectively on account of improvement in the profitability along with gross cash accruals of the company. Further in 5MFY23, interest coverage and total debt to GCA stood 10.52x and 14.71x 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 wholetime director of the company, possess vast experience of around three decades in cotton industry and Mr. Ramesh Kumar, a nonexecutive 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 FY22. 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.

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 FY22. 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 32000 spindles. The aggregate capex of Rs.51 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 33.63 crores has been disbursed as on August 31, 2022. Further, the company has incurred ~Rs.45 crore on this project as on August 31, 2022 funded through debt of Rs.33.63cr and remaining through internal accruals. The plant will become operational in October 2022.

Further post the plant becoming operational in October 2022, the company is planning to install solar plant of 1.5 MW at total project cost of Rs.8.05 crores funded through debt of Rs. 6 crores and remaining through equity. Presently the company has sanctioned term loan of Rs.6cr, which is yet to be availed. Also, the company is maintaining enough liquidity to meet the equity requirement for the project as its credit lines of Rs.21 crores are only ~10% utilized as on August 31, 2022.

Industry Outlook

Indian cotton's quality was affected by unseasonal rains in October-November 2021. The CAI Crop Committee has estimated the total cotton supply (including import) until the end of the cotton season of 2021-22, ie, up to September 30, 2022, at 402.16 lakh bales, which is less by 11.47 lakh bales as compared to 413.63 lakh bales estimated by the CAI previously. The textile and apparel sector is currently facing uncertainty and challenges in demand and operational profitability for the last three months. Capacity utilisation has dropped across the textile value chain, especially for yarn and fabric, since May 2022. However, on a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability supported by increasing urbanisation, rising disposable income, China+1 strategy adopted by the major global retail players along with various incentives from government like RoDTEP, RoSCTL and PLI scheme etc

Liquidity analysis: Adequate

The liquidity profile of the company is adequate with projected gross cash accruals to the tune of Rs.14.85 crore against scheduled debt repayment of Rs.2.94 crore in FY23 along with modest average utilization of fund based working capital limits.

However, the operating cycle remained elongated at 82 days during FY22 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 65-80 days (average inventory holding period of 66 days in FY22). 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 20 days in FY22.

The operations of the company remained working capital intensive and it funds it through utilization of cash credit facility of Rs.21 crore. The average utilization of CC limits remained moderate at 10%. 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.

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, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	5MFY23*
Total operating income	115.36	140.69	62.19
PBILDT	10.10	14.30	4.84
PAT	3.88	6.82	2.00
Overall gearing (times)	1.06	0.37	0.94
Interest coverage (times)	4.76	6.61	10.52

A: Audited
**refers to the period from April 1, 2022 to August 31, 2022.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	21.00	CARE BBB-; Stable
Fund-based - ST-Working Capital Limits		-	-	-	7.00	CARE A3
Fund-based - LT-Term Loan		-	-	October 2031	47.93	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working Capital Limits	LT	21.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Mar-22)	1)CARE BB+; Stable (25-Mar-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)
2	Fund-based - ST-Working Capital Limits	ST	7.00	CARE A3	-	1)CARE A3 (03-Mar-22)	1)CARE A4+ (25-Mar-21)	1)CARE A4+; ISSUER NOT COOPERATING* (16-Jan-20)
3	Fund-based - LT-Term Loan	LT	47.93	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Mar-22)	1)CARE BB+; Stable (25-Mar-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)

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 company

To 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.

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About us:
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