

Akshar Spintex Limited

August 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	4.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities	14.67 (Reduced from 22.87)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	1.35	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	20.02 (Rs. Twenty Crore and Two Lakhs Only)		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The revision in the long -term ratings assigned to the bank facilities of Akshar Spintex Limited (ASL) was mainly on account of improvement in profitability and debt coverage indicators during FY21 (refers to the period from April 1 to March 31).

The ratings, further, continue to derive strength from experienced promoters, location advantage of being present in cotton producing belt of Gujarat, availability of fiscal benefits from the Government and comfortable capital structure.

The ratings, however, continue to remain constrained on account of moderate scale of operations and stretched liquidity along with susceptibility of its profitability to volatile raw-material prices coupled with presence of ASL in highly fragmented and competitive cotton industry.

Rating Sensitivities

Positive Factors

- Growth in its scale of operations by 30% along with increase in PBILDT margin to above 10%
- Sustaining the comfortable capital structure with an improvement in debt coverage indicators marked by interest coverage ratio above 5 times and total debt to Gross Cash Accruals (TDGCA) ratio of below 5 years on sustained basis

Negative Factors

- Decrease in scale of operations and profitability leading to tightly matched cash accruals vis-à-vis debt repayments
- Stretched liquidity position leading to below unity current ratio and decrease in net operational cash flow
- Adverse change in government policies for cotton industry affecting raw material prices for ASL

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations

During FY21, ASL's scale of operations continued to remain moderate marked by TOI of Rs.110.88crore in line with Rs.111.03 crore during FY20. The scale of operations during FY21 remained in line with previous year despite the national lockdown imposed by Government of India in the light of COVID-19 pandemic.

Susceptibility of profitability to volatile cotton prices

The cotton prices in India are regulated through fixation of Minimum Support Price (MSP) by the government, and fortunes of cotton ginners depend on the price parity between the price fixed by the government and those prevailing in the market. Moreover, exports of cotton are also regulated by government through quota systems to suffice domestic demand for cotton. Hence, any adverse change in government policy i.e. higher quota for any particular year, ban on the cotton or cotton yarn export may negatively impact the prices of raw cotton in domestic market and could result in lower realizations and profitability as witnessed during FY21.

Presence in highly fragmented and competitive industry

ASL operates in highly fragmented and unorganized market of the textile industry marked by large number of small sized players. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and suppliers. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.

Key Rating Strengths***Experienced promoter in textile industry***

ASL is promoted by Mr. Amit Gadhiya having an experience of more two decades through his association with a trading entity engaged into cotton ginning. Mr. Ashok Bhalala is associated with ASL since inception. Mr. Harikrushna Chauhan is also associated with the company in the capacity of Director and looks after marketing and advertisement for ASL.

Strategically located within the cotton producing belt of Gujarat

The manufacturing facility of ASL is located at Haripar near Rajkot in the state of Gujarat which is one of the largest cotton producing belts in India. Gujarat produces around 30-35% of total national production of cotton and hence raw material is available in adequate quantity. ASL majorly procures cotton bales from ginneries in the surrounding locality. Its presence in cotton producing region gives it a geographical advantage in terms of lower logistics expenditure (both on the transportation and storage) & ready availability of raw materials.

Availability of fiscal benefits from the government

ASL is entitled to get various subsidies under the Revised Technology Up-gradation Fund Scheme (RTUFS). These benefits include capital subsidy, interest subsidy, power tariff subsidy, refund of VAT on SGST paid by the unit on purchases of intermediate product/raw material and remission of tax collected on end product/intermediate product made up to the extent of 100% the eligible fixed capital investments in plant and machinery made within one year (two years in case of investment more than 500 crore) from the date of production.

Improvement in profitability

However, the profitability as marked by PBILDT margin improved by 359 bps y-o-y to 5.84% mainly on account of decrease in material cost. Further, it generated net profits of Rs.1.24crore in FY21 as against net loss of Rs.5.73crore in FY20. Gross cash accruals (GCA) also improved substantially and remained at Rs.3.96 crore during FY21 as against cash losses of Rs.1.33crore during FY20.

Comfortable capital structure with an improvement in debt coverage indicators

ASL's capital structure continued to remain comfortable as marked by overall gearing ratio of 0.69 times as on March 31, 2021 as against 0.81 times as on March 31, 2020 owing to decrease in total debt led by lower utilization of working capital borrowings as on balance sheet date.

Debt coverage indicators improved in congruence with an increase in profits and remained moderate marked by TDGCA of 6.34 times as on March 31, 2021 against weak TDGCA as on March 31, 2020 led by cash losses during previous year. Further, the PBILDT interest coverage ratio has also improved and remained at 2.57 times during FY21 as against 0.82 times during FY20 on account of decrease in interest & finance charges which was mainly due to lower utilization of working capital borrowings coupled with improved operating profitability.

Liquidity: Stretched

The company has availed fund based and non-fund based facility from the bank, the average utilization of fund based limits remained 80% during the past 12 months ended July, 2021 while average utilization of non-fund based limits remained almost full during the past 12 months ended July, 2021. ASL has cash and bank balance of Rs.0.09 crore as on March 31, 2021 (Rs.0.11 crore as on March 31, 2020). The outstanding gross loan repayment obligation for FY22 remained at Rs.6.16 crore against GCA of Rs.3.95 crore in FY21, while ASL will also receive support from government subsidy of Rs.3.49crore to service the balance debt obligations. Further the moratorium benefit was also availed by the company for a period of six months from March 2020 to August 2020 for its bank facilities providing liquidity cushion in the short term. Further the operating cycle remained stable at 35 days during FY21 in line with previous year.

However, Cash flow from operations decreased and remained at Rs. 6.25 crore during FY21 as against Rs. 7.83 crore during FY20 on account of blockage of funds into inventories coupled with advances to parties.

Impact of COVID-19 on business operations of ASL

In view of the national lockdown imposed by the government to contain the spread of virus, the business operations of the ASL remained partially operational with 40-50% functional capacity as a result of labour shortage till October, 2020. W.e.f November, 2020, it started functioning with 100% capacity and there was no significant impact on the business operations of ASL. Moreover, company had also availed moratorium benefit as a part of Covid relief for the period of 6 months ending August, 2020 for its bank facilities. The operations were also not significantly impacted during second wave of COVID and resumed with full capacity. It was able to manage liquidity from the cash flows.

Overall, due to COVID-19 led disruption in the domestic and world economies and envisaged moderation in the economic activities, the achievement of growth in the scale of operations and envisaged level of profitability margins would remain key rating sensitivities.

Analytical approach: Standalone

Applicable Criteria:

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology-Cotton Textile Manufacturing](#)

About the company

Jamnagar-based (Gujarat), Akshar Spintex Limited (ASL) was established as a private limited company in June 2013 by Mr. Amit Gadhiya and Mr. Ashok Bhalala. In December 2017, the company converted its constitution from private limited company to public limited company.

ASL manufactures carded, combed and compact cotton yarn of finer quality ranging between 16s to 44s counts having 24480 spindles with an installed capacity of 60000 Metric Tonnes and operates from its sole manufacturing facility located at Haripar, Jamnagar (Gujarat).

Brief Financials (Rs. Crore)	FY20 (A)	FY21(A)
Total Operating Income	111.03	110.88
PBILDT	2.50	6.48
PAT	(5.73)	1.24
Overall Gearing (times)	0.81	0.69
Interest Coverage (times)	0.82	2.57

A: Audited

Status of non-cooperation with previous CRA: India Ratings has moved ratings of ASL to 'Issuer Not Cooperating' category vide press release dated November 25, 2020 on account of its inability to carry out a review in the absence of the requisite information from the company.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.35	CARE A4
Fund-based - LT-Term Loan	-	-	February, 2023	9.67	CARE BB+; Stable
Fund-based - LT-Working Capital Demand loan	-	-	December, 2024	4.00	CARE BB+; 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-Cash Credit	LT	5.00	CARE BB+; Stable	-	1)CARE BB; Stable (04-Nov-20) 2)CARE BB; Stable (07-Jul-20)	1)CARE BB+; Stable (07-Nov-19)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	1.35	CARE A4	-	1)CARE A4 (04-Nov-20) 2)CARE A4 (07-Jul-20)	1)CARE A4+ (07-Nov-19)	-
3.	Fund-based - LT-Term Loan	LT	9.67	CARE BB+; Stable	-	1)CARE BB; Stable (04-Nov-20) 2)CARE BB; Stable (07-Jul-20)	1)CARE BB+; Stable (07-Nov-19)	-
4.	Fund-based - LT-Working Capital Demand loan	LT	4.00	CARE BB+; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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