

## Ajanta Spintex Private Limited

August 16, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	34.64	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
<b>Total Bank Facilities</b>	<b>34.64</b> <b>(₹ Thirty-Four Crore and Sixty-Four Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ajanta Spintex Private Limited (ASPL) are tempered by low profitability margins, leverage capital structure and moderate coverage indicators, working capital intensive nature of operations, operating in highly competitive as well as cyclical textile industry and raw material prices dependent on vagaries of nature. The ratings, however, derive comfort from established track record, resourceful and experienced promoters in cotton industry, favourable location of the facility, improving scale of operations with diversified geographical presence and stable industry outlook.

### Rating Sensitivities

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

- Improvement in overall gearing to less than 2x.
- Improvement in operating margin (PBILDT margin) to around 8%.

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

- Any large debt-funded capital expenditure leading to further moderation of capital structure.
- Significant decline in TOI or profitability margins.

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### Detailed description of the key rating drivers

#### Key Rating Weakness

##### Fluctuating and thin profitability margins

The PBILDT margin of the company although fluctuating remained moderate in the range of 6.2%-8.5% during FY18-FY22 on account of fluctuation in raw material prices as raw material constitutes 70-80% of total cost. Resultantly, PAT margin ranging between 0.16% to 2.01% during the said period.

##### Leverage capital structure and weak coverage indicators

The capitals structure of the company remained leveraged over the review period marked by overall gearing ratio that stood at 3.12x as on March 31, 2022. Nevertheless, out of the total debt of Rs.61.09 crore, majority of debt pertains to unsecured loans amounting to Rs.24.99 crore (41%) followed by term loan and working capital limits of Rs.16.55 (27%) crore and Rs.19.53 crore (32%).

The debt coverage indicators of the company although improved over the review period remained moderate marked by total debt/GCA and PBILDT interest coverage ratio improved from 21.35x and 1.44x in FY18 to 15.74x and 1.69x respectively in FY22

##### Presence in highly competitive and Inherent cyclicity associated with textile industry

The textile industry in India is highly fragmented and dominated by many medium and small-scale unorganized players leading to high competition in the industry. Smaller standalone processing units like ASPL are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared to larger integrated textile companies who have better efficiencies and pricing power considering their scale of operations.

Textile is a cyclical industry and closely follows the macroeconomic business cycles. Further, the prices of raw materials and finished goods are determined by global demand-supply scenario and are not limited to only domestic factors. Hence, any shift in macroeconomic environment globally would have an impact on domestic textile industry. The textile industry is also intensely competitive.

##### Dependence on vagaries of nature exposing the company to raw material price volatility risk

The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## **Key Rating Strengths**

### **Established track record, resourceful and experienced promoters in cotton industry**

The company has track record of more than a decade in business operations. ASPL promoted by Mr I Dhana Reddy who has an experience of more than a decade in cotton industry. The operations are supported by other directors who have an experience in similar line of business. Due to long term presence in the market, the company able to receive repetitive orders from regular customers. Apart, the promoters also possess another business i.e., Ajanta Construction and Ajanta Automobiles among others. The promoters are resourceful and infuse the need-based funds. As on March 31, 2022, the unsecured loans stood at Rs.24.99 crore. The personal network of promoters is around Rs.20 crore.

### **Favourable location of the facility**

The company has locational advantage with the manufacturing facilities located at Guntur district which is one of the prominent cotton growing belts in Andhra Pradesh. Furthermore, the plant is also in proximity to Khammam & Warangal, prominent cotton growing belts in Telangana region providing easy off take. ASPL procures cotton from Andhra Pradesh resulted in lower transportation cost

### **Improving scale of operations and diversified customer base**

The total operating income of the company increasing over the review period i.e., from Rs.93.35 crore in FY21 to Rs.124.21 crore in FY22 representing growth of 33% on account of improved realisation from Rs.208 per kg to ~Rs.214-230 per kg. The company derives 98% of revenue from domestic sales and remaining 2% from deemed exports. The company has diversified customer base where top five customers contribute around 44% of total operating income.

### **Stable industry outlook**

The lockdown restrictions have largely remained more targeted and regionally focused in the second wave of Covid 19 vis-à-vis the national lockdown implemented last year, and thus, had temporary impact. 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 favourable progress on the vaccination rollout front. Moreover, recovery in 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. Amidst Covid-19 pandemic, global brands have realized need to diversify their supply chain as a part of 'China Plus One' strategy which has resulted into increase in exports from textile sector. In near to medium term, some demand from US and EU market is expected to shift gradually from China to other major garment manufacturers including India to reduce dependence on China and thus diversify their sourcing.

The Indian textiles market is expected to be worth more than US\$ 209 billion by 2029. India is the world's largest producer of cotton. Production stood at 360.13 lakh bales for the crop year October 2021-September 2022. Domestic consumption for the 2021-22 crop year is estimated to be at 335 lakh bales.

### **Liquidity: Adequate**

Liquidity is adequate characterised by sufficient cushion in accruals to repay its term debt obligations. The company has no major capex plan in near future. The promoters are resourceful and will bring in need-based funds to support the business operations. The average utilisation of working capital for the last 12 months ended remained at 75%.

**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](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

### **About the Company**

Ajanta Spintex Private Limited (ASPL) was incorporated in 2010 with an initial capacity of 24,520 spindles. The Managing Director of the company is Mr. I Dhana Reddy along with his family members . ASPL is engaged in manufacturing of cotton yarn with its spinning facilities located in Guntur district. The company manufactures the yarn ranging between 24's to 40's count, company manufactures 80% of hosiery yarn and remaining 20% weaving yarn. The company procures the lint from various dealers and farmers depending on the price and quality and manufacture the yarn in varied counts. The promoters belong to same family having vast experience in cotton industry.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23(Prov.)
Total operating income	93.35	124.21	25
PBILDT	7.13	7.78	NA
PAT	1.88	2.36	NA
Overall gearing (times)	3.30	3.12	NA
Interest coverage (times)	1.95	2.19	NA

A: Audited; P-Provisional; NA: Not Available

**Status of non-cooperation with previous CRA:** The ratings of ASPL continues to remain under INC by CRISIL and ACUTIE vide its PR dated July 13, 2022 and April 30, 2022 due to lack of information.

**Any other information:** NA

**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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	Dec 2026	14.64	CARE BB-; 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-Cash Credit	LT	20.00	CARE BB-; Stable				
2	Fund-based - LT-Term Loan	LT	14.64	CARE BB-; Stable				

\*Long term/Short term.

#### Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:NA

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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 instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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