

Akshar Spintex Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	16.92 (Reduced from 16.97)	CARE BB; Stable	Reaffirmed
Short Term Bank Facilities	1.35	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of the Akshar Spintex Limited (ASL) continue to remain constraint on account of moderation in scale of operations and profitability during FY23 (Audited; FY refer to period from April 01 to March 31), its presence in highly fragmented and competitive cotton industry and susceptibility of its profitability to volatile cotton prices.

The ratings, however, continue to derive strength from its experienced promoter, its location being strategic within the cotton producing belt of Gujarat, benefits available under government policies, long established relations with customers and suppliers and comfortable capital structure.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations marked by total operating income (TOI) above Rs.175 crore with operating margins above 7.5% on a sustained basis
- Sustaining comfortable capital structure and improvement in debt coverage indicators marked by Total debt to GCA (TDGCA) below 4x
- Improvement in liquidity position with better working capital management

Negative factors

- Continued net losses further impacting liquidity position
- Any major debt funded capex leading to deterioration in leverage position marked by overall gearing above 1.50x

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of ASL is "Stable" considering sustainability of its overall operational and financial risk profile with continued benefits from experience of its promoters and longstanding relationship with the customers and suppliers.

Detailed description of the key rating drivers:

Key weaknesses

Moderation in scale of operations with operational losses in FY23

During FY23, TOI moderated by 21% to Rs.135.53 crore against Rs.172.52 crore in FY22 mainly owing to decrease in sales volume of cotton yarn by 38% on y-o-y basis mainly owing to lower export demand. Further, ASL sells cotton bales on opportunity basis and sharp increase in cotton prices during H1FY23 led to higher sales realisation of the same which was the reason for lower decline in TOI vis-à-vis decline in sales volume of cotton yarn. Further, ASL exports cotton yarn through merchant exporters which generally forms 30-40% of its TOI which impacted TOI to some extent. ASL reported TOI of Rs.38.45 crore during Q1FY24 (UA) (Q1FY23: Rs.48 crore) and expected to remain in line for remaining period of FY24 upon revival of demand backed by stabilisation of Indian cotton prices and revival in global economies.

ASL reported operating loss of Rs.0.45 crore in FY23 as against operating profit of Rs.12.96 crore in FY22 as it was unable to pass on the sharp increase in the prices of cotton to its customers during FY23 specially during Q2FY23. However, profitability improved during Q1FY24 marked by PBILDT margin of 6.85% and PAT margin of 2.34%.

Presence in highly fragmented and competitive cotton 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 supplier. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.

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

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.

Deterioration in debt coverage indicators

With operating losses in FY23 coupled with exceptionally high performance in FY22, debt coverage indicators deteriorated substantially and remained weak during FY23 marked by total debt to GCA (TDGCA) of 44.62 years as on March 31, 2023, as against 2.08 years as on March 31, 2022. Consequently, interest coverage ratio also deteriorated substantially during FY23 as against 5.03 times during FY22.

Key strengths**Experienced promoter**

Mr. Amit Gadhya, Managing Director, who has experience of more than two decades in the textile industry through his association with a trading entity engaged into cotton ginning with which he looks after overall operations of the company. Mr. Harikrushna Chauhan, Chairman, has around six years of experience in the textile industry and more than two decades of experience in info and broadcasting department of Government of India with which he looks after business development and marketing of the company. These directors are further supported by tier II staff.

Strategically located within the cotton producing belt of Gujarat

The manufacturing facility is located at Jamnagar, 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 ginners 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.

Benefits available under government policies

ASL's spinning project is eligible for various incentives by the state as well as central govt. As per the Gujarat Textile Policy – 2012, ASL is also entitled to benefits from Govt. of Gujarat like Refund of Goods and Service Tax (GST) paid by the unit on purchases of intermediate product / raw material and remission of tax collected on end product / intermediate product to the extent of 2.5% of SGST which continue to benefit the company. The aforementioned incentives from state and central government also enhance ASL's cash flow. Further, ASL was getting benefit of 2% interest rate subsidy from the Government of India under the Revised Technology Upgradation Fund Scheme (RTUFS), however, the scheme expired in March 2022 with no announcement of being renewed by the government till date.

Long established relations with customers and suppliers

ASL has developed healthy relation with its customers which facilitate it in securing repeat orders from them. ASL sells cotton yarn to its customers located in Gujarat as well as outside Gujarat. Top 5 customers form 64% of its TOI in FY23 (P.Y.: 58%) reflecting moderate customer concentration risk. Also, ASL has long standing relationship with its suppliers which ensure easy availability of raw material at competitive rates.

Comfortable capital structure

ASL's capital structure continue to remain comfortable marked by overall gearing ratio of 0.43 times as on March 31, 2023, as against 0.59x as on March 31, 2022, owing to high net worth base.

Liquidity: Stretched

The liquidity continues to remain stretched marked by almost full working capital fund-based utilisation, low cash and bank balance and moderate liquidity ratios. Average and maximum utilization of fund-based limits remained 98% and 100% respectively during past 12 months ended August 2023. ASL has low cash and bank balance of Rs.0.02 crore as on March 31, 2023 (FY22: Rs.0.05 crore). It generated GCA of Rs.0.40 times in FY23 against repayment obligation of Rs.2-3 crore in near term. Further, the operating cycle remained moderate at 42 days during FY23 which remained largely in line with the previous year. Current ratio remained moderate at 1.35 times as on March 31, 2023 (FY22: 1.43 times). Further, cash flow from operations turned positive to Rs.11.63 crore during FY23 as against negative CFO of Rs.1.41 crore during FY22 on account of liquidation of inventories.

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](#)
- [Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

About the company

Jamnagar, Gujarat based, Akshar Spintex Limited (ASL) was incorporated as a private limited company in June 2013 by Mr. Amit Gadhiya and Mr. Ashok Bhalala. Then in December 2017, the company converted into a public limited company and got listed on BSE in the same year. ASL manufactures carded, combed and compact cotton yarn of finer quality ranging between 16s to 44s counts having 24,480 spindles with an installed capacity of 6,000 Metric Tons Per Annum (MTPA) as on March 31, 2023, and operates from its sole manufacturing facility located at Haripar, Jamnagar, Gujarat.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	172.52	135.53	38.45
PBILDT	12.96	-0.45	2.63
PAT	6.98	-2.76	0.90
Overall gearing (times)	0.59	0.43	NA
Interest coverage (times)	5.03	NM	8.77

A: Audited UA: Unaudited; NM: Not Meaningful; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: India Ratings has reviewed the ratings of ASL under 'Issuer Not Cooperating' category vide press release dated December 21, 2022, 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

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: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	7.50	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	-	31/08/2028	5.00	CARE BB; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	4.42	CARE BB; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	1.35	CARE A4

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	7.50	CARE BB; Stable	-	1)CARE BB; Stable (23-Nov-22) 2)CARE BB+; Stable (30-Aug-22)	1)CARE BB+; Stable (16-Aug-21)	1)CARE BB; Stable (04-Nov-20) 2)CARE BB; Stable (07-Jul-20)
2	Non-fund-based - ST-Bank Guarantee	ST	1.35	CARE A4	-	1)CARE A4 (23-Nov-22) 2)CARE A4 (30-Aug-22)	1)CARE A4 (16-Aug-21)	1)CARE A4 (04-Nov-20) 2)CARE A4 (07-Jul-20)
3	Fund-based - LT-Term Loan	LT	5.00	CARE BB; Stable	-	1)CARE BB; Stable (23-Nov-22) 2)CARE BB+; Stable (30-Aug-22)	1)CARE BB+; Stable (16-Aug-21)	1)CARE BB; Stable (04-Nov-20) 2)CARE BB; Stable (07-Jul-20)
4	Fund-based - LT-Working Capital Demand loan	LT	4.42	CARE BB; Stable	-	1)CARE BB; Stable (23-Nov-22) 2)CARE BB+; Stable (30-Aug-22)	1)CARE BB+; Stable (16-Aug-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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 Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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 for any clarifications.

Contact us

Media Contact	Analytical Contacts
<p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact Name: Deepak Purshottambhai Prajapati Senior Director CARE Ratings Limited Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in</p>	<p>Name: Kalpesh Patel Director CARE Ratings Limited Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in</p> <p>Name: Sajni Shah Lead Analyst CARE Ratings Limited Phone: 079-40265636 E-mail: sajni.shah@careedge.in</p> <p>Name: Darshini Shah Analyst CARE Ratings Limited E-mail: Darshini.shah@careedge.in</p>

About us:

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