AYM Syntex Limited

December 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	234.41 (Enhanced from 181.26)	CARE A; Stable	Reaffirmed
Short-term bank facilities	385.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of AYM Syntex Limited (ASL) factors in the moderation in the operating performance of the company during FY23 (FY refers to the period from April 01 to March 31) and H1FY24, impacted by the sluggish demand coupled with the decline in margins due to lower realisation, increase in cost of indigenously-sourced materials owing to post-COVID inflation, higher power cost, and the product mix. The operating performance was further impacted by a fire accident at the company's plant in Rakholi, effecting a few machineries during Q1FY24. ASL's financial risk profile was impacted by the losses in H1FY24 with a deterioration in the overall gearing (excluding acceptances) from 0.66x as on March 31, 2023, to 0.78x as on September 30, 2023. An improvement in profitability with correction in the debt coverage metrics will remain a key monitorable.

The ratings continue to factor in the strong promoter group and their demonstrated financial support, established clientele with low customer concentration, and the geographically diversified revenue mix with exports contributing 46% in FY23 (PY: 44%). However, the ratings' strengths continue to be constrained by the exposure to the risk of fluctuations in raw material prices and foreign exchange currency risk. Furthermore, any large debt-funded capex for funding the production-linked incentive (PLI) project under the subsidiary, resulting in weakening of the financial risk profile of ASL, will remain a key monitorable. However, investments for forward integration under the PLI scheme will help the company expand its footprints in the niche active wear segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial improvement in the total operating income (TOI) along with sustainability of the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin around 10%.
- Substantial improvement in the net debt/earnings before interest, taxes, depreciation, and amortisation (EBITDA) ratio to below 2x on a sustained basis.

Negative factors

- Any unforeseen debt-funded capex or acquisition, leading to a deterioration of the net debt/EBITDA beyond 3x on a sustained basis.
- Deterioration in the PBILDT margin below the 8% level at a sustained basis.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the consolidated financials for arriving at the ratings owing to the operations in similar line of business and business linkages that exists with its subsidiaries. ASL incorporated a wholly owned subsidiary, AYM Textile Private Limited, on June 27, 2022. The list of companies that are consolidated to arrive at the ratings are given in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations of an improvement in the operating and financial risk profiles of the company amid the healthy cash flow generation from operations.

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

Detailed description of the key rating drivers

Key strengths

Experienced promoters and management with track record of support

Established in 1983, ASL was jointly promoted by BK Goenka and RR Mandawewala. In October 2015, post the spun off, the stakes held by the erstwhile promoters and their various group companies were transferred to Rajesh Mandawewala, who is the Vice Chairman of Welspun Living Limited (rated 'CARE AA; Stable/CARE A1+') and Co-promoter of the Welspun group. Mandawewala is the Promoter and Chairman of ASL. The promoters of the company have infused around ₹95 crore into the company over FY17-FY23 to provide liquidity support while executing capex in these years.

Moderation in operating performance in FY23 and H1FY24

During FY23, the TOI stood at ₹1,461.38 crore, recording a marginal decline of 2.1% y-o-y. In terms of volumes, the sales were lower by about 4.7% y-o-y on account of weaker sectorial trends in H2FY23. The export markets, especially in the developed countries like the US, Europe, Canada, were weak during FY23, however, the company's share of revenue in exports improved in line with its strategy of increasing footprint in European and other global markets. The operating margins declined from 11.10% in FY22 to 6.84% in FY23 on account of the slow demand coupled with lower margins due to the falling trend of raw material prices and lower realisations, the increase in the cost of indigenously sourced materials owing to post-COVID inflation, the higher power cost, and product mix. During H1FY24, ASL reported a decline in its TOI by 16.41% from ₹781.08 crore in H1FY23 to ₹652.88 crore in H1FY24, impacted by the fire incident in Q1FY24. The operating performance was further impacted by the fire incident, resulting in a decline in operating margins from 6.62% in H1FY23 to 5.41% in H1FY24. Management expects a recovery in the profitability levels with improvement in sales, better cost absorption, and insurance claim receipts for FY24.

Moderation in financial risk profile in H1FY24

Despite an improvement in ASL's capital structure in FY23, the debt coverage metrics moderated on account of lower profitability margins. The overall gearing (including letter of credit [LC] acceptances) improved to 0.94x as on March 31, 2023, vs. 1.02x as on March 31, 2022, on account of a reduction in debt. The total debt (TD; including creditors on LC/acceptances) of the company reduced from ₹419.60 crore as on March 31, 2022, to ₹392.96 crore in FY23, primarily on account of lower working capital bank borrowings as on March 31, 2023. The term debt/gross cash accruals (GCA) and TD/GCA deteriorated to 3.46x (PY: 1.78x) and 6.26x (PY: 3.61x), respectively, as on March 31, 2023, on account of lower cash accruals in FY23 owing to lower operating profitable margins. The interest coverage ratio (ICR) also deteriorated, with the PBILDT/ICR at 2.78x (PY: 4.61x) in FY23. ASL's capital structure and debt coverage metrics further moderated in H1FY24. The overall gearing (excluding acceptances) deteriorated from 0.66x as on March 31, 2023, to 0.78x as on September 30, 2023. The TD/GCA and PBILDT/ICR further deteriorated to 7.55x (PY: 4.41x) and 1.79x (PY: 2.96x) in H1FY24. Based on management's expectations, timely recovery in debt coverage metrics driven by improved profitability will remain a key monitorable.

Established clientele with low customer concentration

The company has an established clientele and caters to customers like Itochu Prominent USA LLC, Mohawk, Shaw, Godfrey Hirst, Beaulieu Canada, Page Industries Limited, etc, among many other prominent clients. The customer base of the company is well distributed and there is no substantial concentration of risk, as no single customer contributes more than 10% of the revenue and of the outstanding receivables. The revenue contribution in FY23 from the top five customers is 22% (PY: 27%), while that from the top 10 customers is 32% (PY: 38%). Exports contributed to 46% of the TOI in FY23 (PY: 44%). About 81% of the total exports in FY23 (PY: 81%) were to Australia, New Zealand, Europe, the US, and the UK.

Healthy working capital cycle

The working capital cycle of the company continues to remain healthy at 33 days in FY23 vs. 24 days in FY22. ASL's major raw materials are nylon and polyester chips. Roughly 40-50% of the total raw material purchases are imported, whereas the rest are sourced from the domestic market. Since more than 70% of the business is make-to-order, the inventory stocking period is about two months. However, the overall operations are working capital-intensive with high dependence on working capital borrowings with an average fund-based and non-fund based working capital utilisation of 76% for the last 12 months ended October 31, 2023.

Key weaknesses

Loss by fire

On May 12, 2023, fire broke out at the company's plant in Rakholi, effecting a few machineries in one of the divisions. The insurance claim is being submitted under two categories – material damage and fire loss of profit insurance (FLOP). ASL has submitted an estimated material damage claim, which includes capex, civil duty, stocks, etc. A partial amount claim has been approved and payment is yet to be received for the same. The company is yet to submit the FLOP claim and it is expected to be submitted in next few months. As per the management, the company is adequately covered for the loss of profit.

Input price fluctuation risk and currency risk

The major raw materials for ASL are polymer chips and Partially Oriented Yarn (POY) or texturised yarn. Both these inputs are derivatives of crude oil purified terephthalic acid (PTA) and mono ethylene glycol (MEG). The average PTA prices increased by 18%, while the average MEG prices fell by 8% in FY23 vis-à-vis FY22. The cost pressures have eased; the PTA and MEG prices eased to ₹88/kg and ₹51/kg in October 2023 from their peaks of ₹105/kg and ₹64/kg in July 2022 and April 2022, respectively. Any adverse movements in the prices of raw materials may put pressure on ASL's profitability margins, in case the rise in price cannot be recovered entirely through higher realisations. ASL's focus on high-value and specialty products and location advantage (being present in a textile manufacturing hub) mitigates the pricing risk as well as competition pressure to an extent. In some cases, depending upon the customer requirements, the company works on formula-based pricing, wherein the prices are contractually binding for a specific period and there is scope for transferring the increased cost, if any, and vice versa.

As for currency risk, ASL is naturally hedged on account of exports. The company imports nylon chips from countries like Taiwan and Korea. In FY23, exports accounted for around 46% of the TOI (PY: 44%). ASL made a forex gain of ₹3.59 crore in FY23 as opposed to a gain of ₹1.61 crore in FY22.

Liquidity: Adequate

The liquidity of the company remains adequate, marked by GCA of ₹62.79 crore in FY23 and cash and cash equivalents of ₹11.30 crore as on September 30, 2023. The company has an average fund-based and non-fund-based utilisation of 76% for the last 12 months ending October 31, 2023. Against this, the company has scheduled repayments of ₹63.75 crore (including lease liabilities of ₹6.03 crore) in FY24.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manmade Yarn Manufacturing
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 and apparels	Other textile products

Established in 1983, ASL is engaged in the manufacturing of a wide range of texturised or dyed polyester and nylon yarn from its three manufacturing units located at Rakholi (Dadra & Nagar Haveli), Naroli (Dadra & Nagar Haveli), and Palghar (district Thane, Maharashtra). ASL has developed varieties of yarn, i.e., air texturised yarn, mono filament yarn, IDY yarn, sewing thread yarn, automotive yarn, and other fancy yarns. The company periodically changes its product mix in line with the market requirements while keeping focus on high-value products such as dope-dyed and nylon mono yarns, spandex covered yarns, high bulk polyester yarns, etc, catering to the niche market.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	1,493.07	1,461.38	652.88
PBILDT	165.66	99.97	35.31
PAT	50.81	7.16	(16.40)
Overall gearing (times)*	1.02	0.94	NA
Interest coverage (times)	4.61	2.78	1.79

A: Audited; UA: Unaudited; NA: Not available; *including LC acceptances. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the 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-Term loan	-	-	-	30-11-2026	234.41	CARE A; Stable
Fund-based-Short term	-	-	-	-	110.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	275.00	CARE A1

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-Term loan	LT	234.41	CARE A; Stable	-	1)CARE A; Stable (21-Oct-22)	1)CARE A-; Positive (25-Aug-21)	1)CARE A-; Stable (08-Oct-20)
2	Non-fund-based - ST-BG/LC	ST	275.00	CARE A1	-	1)CARE A1 (21-Oct-22)	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (08-Oct-20)
3	Fund-based-Short term	ST	110.00	CARE A1	-	1)CARE A1 (21-Oct-22)	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (08-Oct-20)

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based-Short term	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of Subsidiaries consolidated as on March 31, 2023

Sr. No.	Name of the company	Country of Incorporation	% shareholding as on March 31, 2023
1	AYM Textiles Private Limited	India	100%

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
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: 912267543505 E-mail: pulkit.agarwal@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Arti Roy Associate Director **CARE Ratings Limited** Phone: 912267543657 E-mail: arti.roy@careedge.in Madhusudhan Giri Goswami Lead Analyst **CARE Ratings Limited** E-mail: madhusudhan.g@careedge.in

About us:

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