

## A B Cotspin India Limited

December 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE BBB-; Stable and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A3 and Withdrawn

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB-; Stable/CARE A3' [Triple B Minus; Outlook: Stable/ A Three] assigned to the bank facilities of A B Cotspin India Limited (ABCIL) with immediate effect. The above action has been taken at the request of ABCIL and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE Ratings.

The ratings assigned to the bank facilities of ABCIL continue to derive comfort from moderate scale of operations and profitability margins, moderate capital structure along with adequate liquidity position. The ratings further derive strength from ABCIL's experienced promoters, long track record of operations in the textile industry, its location advantage of being in the textile hub, integrated nature of operations, and diversified product profile. The ratings, however, continue to remain constrained due to risk of customer concentration, susceptibility of profitability to volatile raw material prices and regulatory changes along with presence in fragmented and cyclical textile industry.

### Analytical approach:

Standalone

### Detailed description of the key rating drivers:

#### Key strengths

##### Moderate scale of operations and profitability margins

Despite sluggish demand for yarn and overall textile industry, the company managed to sustain its scale of operations at ₹169.10 crore as on March 31, 2023, as against ₹140.69 crore as on March 31, 2022. During H1FY24, the company was able to achieve sales of ₹111.02 crore as compared with full year sales of ₹169.10 crore in FY23.

Also, during FY23, the prices of cotton remained highly volatile and sudden decline in prices adversely affected the profitability of the company as marked by profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and profit after tax (PAT) margin of 6.17% (PY: 10.16%) and 1.11% (PY: 4.85%), respectively.

However, the prices have started stabilising, and in H1FY24, the PBILDT and PAT margins stood 10.18% and 1.78%, respectively. In absolute terms, PAT stood ₹1.98 crore in H1FY24, which is higher than the PAT of ₹1.88 crore in FY23. The Gross Cash Accruals (GCA) of the company stood ₹6.82 crore during H1FY24 as compared with ₹2.12 crore during H1FY23.

Apart from this, the company has raised equity of ₹84 crore through preferential allotment of which it has received ₹21 crore during October 2023 and balance will be received in the next 12 months. The equity received has been used for inventory funding during the current season. The remaining equity to be received will be used for reduction of debt and further strengthening of working capital.

##### Moderate capital structure

The capital structure of the company remained moderate marked by an overall gearing ratio at 1.76x as on March 31, 2023 (PY: 0.37x as on March 31, 2022). However, slight deterioration is on account of comparatively high reliance on external borrowings of the company due to capital expenditure undertaken during FY23.

##### Vast experience of promoters and long track record of operations in textile industry

Established in 1997, ABCIL 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 Deepak Garg, a Managing Director of the company, who has an industrial experience of more than two decades. Furthermore, Manohar Lal (wholtime

<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

director of the company), possesses vast experience of around three decades, while Ramesh Kumar (non-executive director), holds an experience of a decade in the 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. Furthermore, 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. Furthermore, the requirement of yarn of knitted fabric manufacturing unit is met in-house. 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 various types of knitted fabrics, which includes combed, carded, and slub fabrics. The company generates revenue of around 60-75% from cotton yarn and balance from other products.

#### **Key weaknesses**

##### **Customer concentration risk**

The company is exposed to the customer concentration risk as the top five customers contribute around 55% of the total sales during FY23 and around 65% during H1FY24. Furthermore, CARE Ratings notes that the company does not have any short-term/long-term contract with their customers, and hence, any change in the procurement policy or any deterioration in the financial profile of any of these customers may adversely impact its business.

##### **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, including 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. The 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 unorganised 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. The 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.

##### **Liquidity: Adequate**

The liquidity profile of the company is adequate with GCA to the tune of ₹6.82 crore during H1FY24 against scheduled full year debt repayment of ₹6.75 crore in FY24 along with moderate average utilisation of fund-based working capital limits. The average utilisation of CC limits remained moderate at 70-80%. Furthermore, the company has cash and bank balance of ₹0.12 crore with lien marked FDR of ₹0.58 crore as on March 31, 2023.

However, the operating cycle remained elongated at 89 days during FY23, primarily on account of the 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 70 days in FY23 (average inventory holding period of 66 days in FY22). The company receives the limited credit period of around 4 to 7 days from its suppliers. The collection period improved on account of timely receipt of payment from its customers and stood 23 days in FY23.

### Applicable criteria

[Policy on Withdrawal of Ratings](#)

[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 and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

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 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 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, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	140.69	169.10	111.02
PBILDT	14.30	10.44	11.31
PAT	6.82	1.88	1.98
Overall gearing (times)	0.37	1.76	2.04
Interest coverage (times)	6.61	2.98	2.76

A: Audited; UA: Un-Audited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Brickworks has conducted the review on the basis of the best available information and classified A B Cotspin India Limited as 'Not Co-operating' vide its press release dated March 30, 2022.

**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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	October 2031	0.00	Withdrawn
Fund-based - LT-Working capital limits		-	-	-	0.00	Withdrawn
Fund-based - ST-Working capital limits		-	-	-	0.00	Withdrawn

**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-Working capital limits	LT	-	-	-	1)CARE BBB-; Stable (04-Oct-22)	1)CARE BBB-; Stable (03-Mar-22)	1)CARE BB+; Stable (25-Mar-21)
2	Fund-based - ST-Working capital limits	ST	-	-	-	1)CARE A3 (04-Oct-22)	1)CARE A3 (03-Mar-22)	1)CARE A4+ (25-Mar-21)
3	Fund-based - LT-Term loan	LT	-	-	-	1)CARE BBB-; Stable (04-Oct-22)	1)CARE BBB-; Stable (03-Mar-22)	1)CARE BB+; Stable (25-Mar-21)

**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-Term loan	Simple
2	Fund-based - LT-Working capital limits	Simple
3	Fund-based - ST-Working capital limits	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](mailto:care@careedge.in) for any clarifications.

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### About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

### Disclaimer:

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