AYM Syntex Limited
October 21, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	181.26 (Enhanced from 141.88)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short Term Bank Facilities	385.00 (Enhanced from 330.00)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**566.26 (₹ Five Hundred Sixty-Six Crore and Twenty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers
The revision in the ratings assigned to the bank facilities of AYM Syntex Ltd (ASL) factors in the sustained improvement in the overall credit profile of ASL over last two years. Business risk profile has improved with revenue growth of 58% in FY22 driven by improved demand, leading to higher volumes and realizations resulting into higher revenues and improved profitability. Furthermore, this has led to improvement in the financial risk profile and debt coverage indicators of the company in FY22 supported by improved capital structure and debt coverage metrics. The liquidity position of the company also improved, due to healthy cash profits in FY22. Steady accretion to reserves will continue to aid the financial risk profile over the medium term.

The ratings also derive strength from the strong promoter group and their demonstrated financial support, established clientele with low customer concentration and geographically diversified revenue mix with exports contributing 44% in FY22 (PY: 42%). However, the ratings strengths continue to be constrained by exposure to risk of fluctuation in raw material prices & foreign exchange currency risk. Further any large debt funded capex for funding the PLI project under the subsidiary resulting in weakening of financial risk profile will remain key monitorable. However, investment for forward integration under PLI scheme will help company expand its foot prints in niche active wear segment.

Rating sensitivities
Positive factors – Factors that could lead to positive rating action/upgrade:
- Substantial improvement in Total Operating Revenue along with sustainability of PBILDT margins around 10%.
- Substantial improvement in Net Debt/EBITDA ratio to below 2x on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:
- Any unforeseen debt-funded capex/acquisition leading to deterioration of the Net Debt/EBITDA beyond 3x on a sustained basis.
- Deterioration in PBILDT margin below 8% levels at sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and management with sound track record of support: Established in 1983, ASL was jointly promoted by Mr B.K. Goenka and Mr R.R. Mandawewala. In October 2015, post spun-off stake held by erstwhile promoters and their various group companies was transferred to Mr Rajesh Mandawewala who is Managing Director of Welspun India Ltd (CARE AA; Stable/CARE A1+) and co-promoter of Welspun Group. Mr Rajesh Mandawewala is the promoter and Chairman of ASL. The promoters of the company have infused ~₹94 crore into the company over FY17-FY21 to provide liquidity support while executing capex in these years.

Improvement in operating performance and financial risk profile in FY22: The Company's operational and financial performance has improved on account of pent-up demand in domestic and export markets. The overall Capacity utilization remained healthy at 74% (PY: 77%). Improved product mix, higher realizations and cost optimization initiatives undertaken in

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

FY22 resulted in improvement in operating margins from 9.90% in FY21 to 11.10% in FY22. However, during Q1FY23 operating margins have declined on account of significant increase in one of its key raw material, PTA prices by ~25%. With stability in raw material prices margins are expected to recover.

ASL's capital structure and debt coverage metrics have improved sharply in FY22. Despite increase in debt, overall gearing remained comfortable at 1.02x as on March 31, 2022 vs. 1.00x as on March 31, 2021. The total debt (includes term debt, WC, ICD and LC acceptances) of the company has increased from ₹351.74 crore in FY21 to ₹403.14 crore in FY22 primarily on account of increase in utilization of working capital bank borrowings as on March 31, 2022. Term debt/GCA and Total debt/GCA improved to 1.78x (PY: 3.57x) and 3.61x (PY: 6.38x) respectively as on March 31, 2022 on account of higher cash accruals in FY22. Interest coverage ratios also improved with PBILDT interest cover at 4.61x (PY: 2.75x) at the end of FY22. Despite the debt funded project under subsidiary for PLI scheme, the financial risk profile is expected to remain comfortable; any significant deterioration would be monitored.

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 revenue and of the outstanding receivables. Revenue contribution in FY22 from the top 5 customers is ~27% (PY: ~29%), while that from the top 10 customers is 38% (PY: 43%). Exports contributed to ~44% of TOI in FY22 (~42% in FY21). About 81% of total exports in FY22 (~61% in FY21) were to Australia, New Zealand, EU, USA and UK.

Stable Working Capital Cycle: The working capital cycle of the company continues to be stable near to the range of 20-25 days. The Company's major raw materials are Nylon and polyester chips. Roughly 40-50% of total RM 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 2 months. However, overall operations are working capital intensive with high dependence on working capital borrowings with almost near to full utilization of working capital limits. With enhancement in working capital limits and softening of RM prices the working capital utilization is expected to remain moderate going forward.

Key rating weaknesses

Input price fluctuation risk and currency risk: The major raw materials for ASL are polymer chips and POY/texturized yarn. Both these inputs are derivatives of crude oil Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). The average prices of both the raw materials PTA and MEG increased by 49% and 32% respectively in FY22 vis-à-vis FY21. However, the cost pressures have begun to ease, the PTA and MEG prices eased to ₹87/kg and ₹57/kg in September 2022 from their peaks of ₹105/kg and ₹70/kg in July 2022 and October 2021 respectively. Any adverse movement in the raw material prices may put pressure on ASL's profitability margins, in case the rise in price cannot be recovered entirely through higher realizations. ASL's focus on high value/specialty products and location advantage (being present in textile manufacturing hub) mitigates the pricing risk as well as competition pressure to an extent. In some cases, depending upon the customer requirement company works on the formula-based pricing wherein prices are contractually binding for 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 FY22 exports accounted for ~44% of TOI. ASL made a forex gain of ₹1.61 crore in FY22 as opposed to forex loss of ₹1.42 crore in FY21.

Liquidity: Adequate

The liquidity of the company improved and remains adequate marked by strong gross cash accruals of ₹116.09 crore in FY22 & ₹19.36 crore in Q1FY23 and cash & cash equivalents of ₹3.85 crore as on March 31, 2022. Against this, the company has scheduled repayments of ₹42.97 crore in FY23.

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
Short Term Instruments
Manmade Yarn Manufacturing
Manufacturing Companies

About the company

Established in 1983, ASL is engaged in manufacturing of wide range of texturized/dyed polyester and nylon yarn from its three manufacturing units located at Rakholi (Dadra & Nagar Haveli), Naroli (Dadra & Nagar Haveli) and Palghar (Dist. Thane, Maharashtra). ASL has developed varieties of yarn, i.e. air texturized 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, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	947.41	1,493.07	398.82
PBILDT	93.84	165.66	31.79
PAT	14.09	50.81	5.48
Overall gearing (times)	1.00	1.02	NA
Interest coverage (times)	2.75	4.61	3.59

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

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

Covenants of the rated instruments/facilities: 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 (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	-	-	-	30-11-2026	181.26	CARE A; Stable
Fund-based-Short Term	-	-	-	-	104.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	281.00	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 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-Term Loan	LT	181.26	CARE A; Stable	-	1)CARE A-; Positive (25-Aug-21)	1)CARE A-; Stable (08-Oct-20)	1)CARE A; Stable (07-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	281.00	CARE A1	-	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (08-Oct-20)	1)CARE A1 (07-Oct-19)
3	Fund-based-Short Term	ST	104.00	CARE A1	-	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (08-Oct-20)	1)CARE A1 (07-Oct-19)

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

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

Sr. No.	Name of 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: 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 for any clarifications.

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About us:
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