

Akshar Spintex Limited

November 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	16.97	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	1.35	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	18.32 (₹ Eighteen Crore and Thirty-Two 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 Akshar Spintex Limited (ASL) takes into consideration substantial decline in the scale of operations marked by Total Operating Income (TOI) along with operational losses in Q2FY23 (FY refers to the period from April 1 to March 31) on the back of subdued market scenario as well as sharp increase in the prices of cotton yarn leading to deterioration in debt coverage indicators and stretched liquidity position.

The above ratings, continue to remain constrained on account of project risk associated with its upcoming windmill project, presence in highly fragmented and competitive cotton industry and susceptibility of profitability to volatile cotton prices.

The ratings, however, continue to derive comfort from ASL's comfortable capital structure along with experienced promoters in textile industry, location advantage as well as benefits available under government policies.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations marked by TOI above Rs.150 crore
- Improvement in profitability marked by operating margin of 7% or more on sustained basis with consequent improvement in cash accruals.
- Sustaining comfortable capital structure and debt coverage indicators
- Improvement in liquidity position marked by sufficient cash accruals vis-à-vis debt repayment obligations

Negative factors – Factors that could lead to negative rating action/downgrade:

- Continued losses in H2FY23 further impacting liquidity
- Any major debt funded capex other than currently projected leading to deterioration in leverage position of the company marked by overall gearing above 2x

Detailed description of the key rating drivers

Key rating weaknesses

Substantial decline in scale of operations coupled with operational losses in Q2FY23

During Q2FY23, the scale of operations of ASL declined substantially marked by TOI at Rs.18.78 crore as against Rs.48.33 crore in Q1FY23 due to subdued market scenario. ASL reported operational losses of Rs.6.33 crore in Q2FY23 as against operational profit of Rs.3.01 crore in Q1FY23 largely due to substantial decline in scale of operations led by inability to pass on the sharp increase in the raw material prices to its customers. Consequently, ASL booked net loss of Rs.7.76 crore during Q2FY23 as against net profit booked of Rs.1.08 crore during Q1FY23.

Deterioration in debt coverage indicators led by cash losses in Q2FY23

The debt coverage indicators of ASL as marked by Total debt to Gross cash accruals (TDGCA) deteriorated and remained weak owing to cash losses of Rs.6.74 crore booked during Q2FY23. The interest coverage ratio also deteriorated owing to operating losses booked in Q2FY23.

Debt coverage indicators, however remained comfortable marked by TDGCA of 2.08 years as on March 31, 2022 against 6.34 years as on March 31, 2021. Further, the PBILDT interest coverage ratio also remained at 5.03 times during FY22 as against 2.04 times during FY21 on account of improved operating profitability in FY22 over FY21.

Project Risk associated with its upcoming Windmill Project

ASL undergoing a project to install and commission windmill of 2.7 MW. Total estimated project cost is Rs.22.55 crore. After commissioning the project, it is estimated that more than 50% of the power cost will be saved. Project is expected to complete by FY23 thereby commencing operations from FY24 onwards. With majority of costs yet to incur, ASL remains exposed to the project completion and stabilization risk.

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

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

supplier. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.

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.

Key rating strengths

Experienced promoter in textile industry

ASL is promoted by Mr. Amit Gadhiya having an experience of more two decades through his association with a trading entity engaged into cotton ginning. Mr. Harikrushna Chauhan is also associated with the company and looks after marketing and advertisement for ASL.

Strategically located within the cotton producing belt of Gujarat

The manufacturing facility of ASL is located at Haripar near Rajkot in the state of 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. ASL was getting benefit of 2% interest rate subsidy from the Government of India under the Revised Technology Upgradation Fund Scheme (RTUFS). Further, 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. The aforementioned incentives from state and central government also enhance ASL's cash flow.

Comfortable capital structure

ASL's capital structure continued to remain comfortable as marked by overall gearing ratio of 0.57 times as on September 30, 2022 as against 0.59x as on March 31, 2022 owing to higher net worth level.

Liquidity: Stretched

The company has availed fund based and non-fund-based facility from the bank which it utilizes for fulfilling its working capital requirement of business and performance guarantee for PGVCL (Paschim Gujarat Vij Company Limited), while the average utilization of fund-based limits remained ~95% during the past 12 months ended July, 2022 while average utilization of nonfund-based limits remained almost full during the past 12 months ended July, 2022. ASL has low cash and bank balance of Rs.0.01 crore as on September 30, 2022 (Rs.0.05 crore as on March 31, 2022 and Rs.0.09 crore as on March 31, 2021). The outstanding gross loan repayment obligation for FY23 remained at Rs.6.71 crore against GCA of Rs.12.32 crore in FY22. ASL reported cash losses of Rs. 4.64 crore during H1FY23. Further the operating cycle remained stable at 36 days during FY22 in line with previous year. Current ratio remained at 1.43 times as on March 31, 2022 as against 1.30 times as on March 31, 2021.

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](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the entity

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. In December 2017, the company converted its constitution from private limited company to public limited company. Further during FY22, Mr. Ashok Bhalala and his family had sold stake in ASL which has been acquired by Mr. Harikrishna Chauhan and family. 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 Tonnes per Annum as on March 31, 2022 and operates from its sole manufacturing facility located at Haripar, Jamnagar (Gujarat).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Published)
Total operating income	110.24	172.52	67.11
PBILDT	5.14	12.96	-3.33
PAT	1.24	6.98	-6.68
Overall gearing (times)	0.69	0.59	0.57
Interest coverage (times)	2.04	5.03	NM

A: Audited, NM: Not Meaningful

Status of non-cooperation with previous CRA: India Ratings has reaffirmed ratings of ASL to 'Issuer Not Cooperating' category vide press release dated December 10, 2021 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 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-Cash Credit		-	-	-	7.50	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	30/04/2023	3.60	CARE BB; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	5.87	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 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	7.50	CARE BB; Stable	1)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)	1)CARE BB+; Stable (07-Nov-19)
2	Non-fund-based - ST-Bank Guarantee	ST	1.35	CARE A4	1)CARE A4 (30-Aug-22)	1)CARE A4 (16-Aug-21)	1)CARE A4 (04-Nov-20) 2)CARE A4 (07-Jul-20)	1)CARE A4+ (07-Nov-19)
3	Fund-based - LT-Term Loan	LT	3.60	CARE BB; Stable	1)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)	1)CARE BB+; Stable (07-Nov-19)
4	Fund-based - LT-Working Capital Demand loan	LT	5.87	CARE BB; Stable	1)CARE BB+; Stable (30-Aug-22)	1)CARE BB+; Stable (16-Aug-21)	-	-

*Long term/Short term.

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

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
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Non-fund-based - ST-Bank Guarantee	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.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Sajni Shah
Phone: +91-079-4026 5636
E-mail: Sajni.Shah@careedge.in

Relationship contact

Name: Mr. Deepak Prajapati
Phone: +91-079-4026 5656
E-mail: deepak.prajapati@careedge.in

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:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.