A B Cotspin India Limited

March 25, 2021

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long -term Bank Facilities	31.97 (reduced from Rs.37.17)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Rating removed from ISSUER NOT COOPERATING* category and Reaffirmed**
Short-term Bank Facilities	7.00	**CARE A4+ (A Four plus)**	**Rating removed from ISSUER NOT COOPERATING* category and Reaffirmed**
Total	**38.97 (Rupees Thirty Eight Crore and Ninety Seven Lakh Only)**		

*Details of instruments/facilities in Annexure-1, * Issuer did not cooperate; based on best available information*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of A B Cotspin India Limited (ABCIL) continue to remain constrained on account of its modest scale of operation and low networth base restricting operational and financial flexibility, thin profitability margins, moderate capital structure and debt coverage indicators and the risk of customer concentration. The ratings further remained constrain due to ssusceptibility of its profitability to volatile raw material prices and regulatory changes and its presence in fragmented and cyclical textile industry.

The ratings, however, derive strength from its experienced promoters long track record of operations in the textile industry and its location advantage of being in the textile hub, integrated nature of operations and diversified product profile. It further derives strength from improvement in its total operating income (TOI) and profitability in 9MFY21 (Prov.; FY; refers to period April 1 to March 31) with the improvement in the demand and prices in the textile industry post initial adverse impact of Covid-19 pandemic.

Rating Sensitivities

Positive Factors

- Volume driven increase in scale of operations with total operating income (TOI) beyond Rs.250 crore and PBILDT margin over 12% on sustained basis
- Improvement in overall gearing below 1.00x on a sustained basis

Negative Factors

- Decline in operating profitability with a PBILDT margin of below 5% on a sustained basis or meaningful decline in scale of operations
- Elongation in net operating cycle to more than 120 days on a sustained basis
- Any large size debt funded capex

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operation and low net worth base

The scale of operations of ABCIL marked by TOI remained modest at around Rs.120 crore during FY18 and FY19. However, it declined sharply by around 22% to Rs.94 crore during FY20 on the back of subdued demand of textile products leading to decline in sales volumes apart from lower average sales realizations of key products. Further, the sales volumes of the company were also impacted in the last week of March 2020 due to lockdown imposed by Central Government to control the spread of Covid-19. The company has reported PBILDT margin of 6.47% (PY: 6.41%) and PAT margin of 1.22% (PY: 1.18%). The profitability of the company remains low and volatile due to competitive intensity and volatile cotton and cotton yarn prices.

Further, the company has small net worth base of Rs.19.28 crore as on March 31, 2020. The modest scale of operation restricts the operational flexibility of the company in terms of lower bargaining power while small tangible networth base restricts the financial flexibility.

Moderate capital structure and debt coverage indicators

The capital structure of the company remained moderate marked by an overall gearing ratio at 1.52x as on March 31, 2020 (PY: 1.87x as on March 31, 2019). The total debt of the company as on March 31, 2020 comprises the term debt of Rs.4.50 crore, vehicle loans of Rs. 0.36 crore, unsecured loans of Rs.4.34 crore and working capital borrowings of Rs.20.09 crore. Further, ABCIL has availed working capital loan under Guaranteed Emergency Credit Line (GECL) of Rs.4.18 crore in June 2020. ABCIL is presently setting up a solar power plant of 1.01 Mega Watt (MW) with a total cost of around Rs.3.31 crore,

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

while expanding its crushing and ginning capacity with a total cost of Rs.2.34 crore. The aggregate capex of Rs.5.64 crore is being funded by a term debt of Rs.4.25 crore and balance by unsecured loan & internal accruals. Hence, the capital structure of the company is expected to remain moderate in near term with the drawal of additional debts. The debt coverage indicators of the company continued to remain moderate as indicates by Total debt to GCA of 7.45 years (PY: 7.52 years) and PBIDLT interest coverage ratio of 3.19 times (PY: 2.69 times). The interest cost of the company declined to Rs.1.92 crore in FY20 from Rs.2.89 crore in FY19 on account of repayment of term debt during the year led to marginal improvement in interest coverage ratio also.

Customer concentration risk

The company is exposed to the customer concentration risk as the top five customers contribute around 55-60% of total sales during the last three years ended FY20. Further, the company doesn't have any short term/long term contract with their customers and hence, any change in procurement policy or any deterioration in the financial profile of any of these customers may adversely impact the business of the company.

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 such as 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. 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 unorganized 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. 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.

Key Rating Strengths

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

ABCIL was established in 1997 and it 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 Mr. Deepak Garg, a Managing Director of the company, who has an industrial experience of more than two decades. Further, Mr. Manohar Lal, who is a whole-time director of the company, possess vast experience of around three decades in cotton industry and Mr. Ramesh Kumar, a non-executive director, hold an experience of a decade in 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. Further, 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 5,000 Metric Ton Per Annum (MTPA) which meets full requirement of spinning unit which has an installed capacity of 4,320 MTPA. Further, the requirement of yarn of knitted fabric manufacturing unit is met in house. The cotton ginning capacity was utilized around 70-80% whereas the spinning capacity was utilized around 80% during the last three years ended FY20. 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 varies type of knitted fabric which

includes combed, carded, slub fabric. The company generates revenue of around 60-65% from cotton yarn, around 10% from cotton seed cake and balance from other products.
The operations of the company were disrupted during the period of Q1FY21 due to Covid-19. However, the company has witnessed an improvement in its sales post July 2020 on the back of gradual improvement of the demand in textile industry. The diversity in product profile and integrated nature of business provides cushion to withstand any volatility in business environment.

Improvement in demand and prices after initial adverse impact of Covid-19 pandemic on textile sector
The textile industry was impacted due to the closure of retail stores and malls on account of lockdown situation across the nation. Also, on the international front, spread of Covid-19 in top export destinations such as Europe and US (together accounting for about 60% of the total apparel exports) has resulted in closure of retail stores and malls there. However, after the lockdown was lifted, the industry has witnessed a gradual recovery. Although, the strength of the recovery will be contingent on the duration and extent of the Covid-19 pandemic, where a prolonged downturn in apparel demand may constrain revenues and earnings of the sector.
Indian cotton yarn prices have surged significantly in the recent months on the back of improving demand from the domestic downstream segments as well as continued healthy export demand. Further, with the closure/ scale-down of some spinning capacities owing to distressed financial position, there is a relatively lower increase in cotton yarn production vis-à-vis demand, creating a shortage situation and hence triggering a surge in cotton yarn prices. Although cotton as well as yarn prices started firming up from September 2020 onwards, increase in yarn prices has been higher than that in cotton prices. This in turn has supported an improvement in contribution margins, which averaged at ~Rs. 112/kg in Q3FY21, ~26% higher than ~Rs. 90/kg in Q2FY20. As a result, the overall business performance of spinners is expected to revert to the pre-pandemic levels in H2FY21.
Furthermore, the Indian cotton yarn segment was recovered in post the pandemic impact in Q1FY21 and the same had been led by exports (which typically account for ~25-30% of India's total cotton yarn production), while recovery in the domestic market came with a lag. Despite adverse impact of Covid, the India's cotton yarn export registered a growth around 8% in 9MFY21 over 9MFY20 backed by significant growth of over 75% in export to China.

Liquidity: Adequate
ABCIL's liquidity remained adequate marked by steady cash accruals and modest average utilization of fund based working capital limits. However, the operating cycle elongated to 106 days during FY20 primarily due to elongation in collection period to 35 days in FY20 from 25 days in FY19. Further, the company maintains high raw material inventory i.e. around 60-70 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 75-80 days (average inventory holding period of 79 days in FY20). However, the company receives the limited credit period of around 8 days from its suppliers and the majority of the working capital requirement are being met through bank borrowings. The average utilization of cash Credit limits remained moderate at 55% and the Warehouse finance limit at around 15% for the last 12 months ended January 2021. ABCIL got a sanction of working capital term loan of Rs.4.18 crore under Guaranteed Emergency Credit Line (GECL) scheme which will support its liquidity. CARE also noted that the company had availed the moratorium for a period of March-August 2020 for its debt servicing, the option which was available as a Covid-19 relief measure as per RBI's policy.

Analytical approach: Standalone

Applicable criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology -Manufacturing Companies
Rating Methodology -Cotton Textile Manufacturing
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
A B Cotspin India Limited (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 the year 2011 while it started manufacturing cotton fabrics in 2014. The company operates from a single integrated manufacturing facility in Bathinda, Punjab at an installed capacity of 5,000 Metric Ton Per Annum (MTPA) of cotton, 4,320 MTPA of yarn, 1,512 MTPA of fabric and around 300 kg/day of oil extraction, as on March 31, 2020.

(Rs. crore)

Brief Financials of ABCIL	FY19 (Audited)	FY20 (Audited)
Total operating income	121.05	94.40
PBILDT	7.76	6.11
PAT	1.42	1.15
Overall gearing (times)	1.87	1.52
PBILDT Interest coverage (times)	2.69	3.19

As per the provisional results for 9MFY21, ABCIL reported a total operating income of Rs.81.56 crore with operating profit (PBILDT) of Rs.6.92 crore.

Status of non-cooperation with previous CRA: Brickwork has kept the ratings assigned to ABCIL under Issuer Not Cooperating category in the absence of adequate information from the client on April 30, 2020.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	NA	NA	NA	21.00	CARE BB+; Stable
Fund-based - ST-Working Capital Limits	NA	NA	NA	7.00	CARE A4+
Fund-based - LT-Term Loan	NA	NA	January 2027	10.97	CARE BB+; Stable

NA: Not Applicable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	21.00	CARE BB+; Stable	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)	1)CARE BB+; Stable (07-Sep-18)	-
2.	Fund-based - ST-Working Capital Limits	ST	7.00	CARE A4+	-	1)CARE A4+; ISSUER NOT COOPERATING* (16-Jan-20)	1)CARE A4+ (07-Sep-18)	-
3.	Fund-based - LT-Term Loan	LT	10.97	CARE BB+; Stable	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)	1)CARE BB+; Stable (07-Sep-18)	-

Annexure 3: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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