AYM Syntex Limited

August 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	141.88 (Reduced from 181.76)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	330.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**471.88 (Rs. Four Hundred Seventy-One Crore and Eighty-Eight Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings reaffirmation of the bank facilities of AYM Syntex Ltd (ASL) continues to factor in strong promoter group and their demonstrated financial support, established clientele with low customer concentration and geographically diversified revenue mix with exports contributing 42% in FY21, stable operational and financial performance in FY21 which is expected to improve in FY22 driven by higher revenues and improved profitability driven by higher volumes and realizations.
The ratings strengths continue to be constrained by exposure to risk of fluctuation in raw material prices & foreign exchange currency risk.

Rating Sensitivities

Positive Factors

- Sustained improvement in profitability to above 11% on a sustained basis

Negative Factors

- Deterioration in overall solvency position vide overall gearing ratio of above 2x
- Deterioration in PBILDT margin below 9% levels

Outlook: Positive (revised from 'Stable')

The positive outlook primarily reflects CARE's belief that ASL's business and financial risk profile will continue to improve over medium term. The revision in outlook also reflects expectations of ASL's healthy revenue growth while sustaining PBILDT margins above 11% and improved liquidity with additional working capital limits. The Outlook may be revised to 'Stable' on reversal in the current trajectory of improving PBILDT margins, and deterioration in capital structure due to increased debt levels or lower cash accruals.

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 Late Mr. G.R. Goenka, Mr. B.K. Goenka and Mr. R.R. Mandawewala. In October 2015, 65.15% stake held by erstwhile promoters and their various group companies was transferred to Mr. Rajesh Mandawewala who is Managing Director of Welspun India Ltd and co-promoter of Welspun Group. Mr. Rajesh Mandawewala is the promoter and Chairman of ASL. The promoters of the company have infused ~Rs.93 crore into the company over FY17-FY21 to provide liquidity support while executing capex in these years.

Established clientele with low customer concentration

The Company has an established clientele and caters to customers like Godfrey Hirst Australia Pte. Ltd, 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 FY21 from the top 5 customers is 29%, while that from the top 10 customers is 43%. Exports contributed to ~42% of the total revenue in FY21 (40% in FY20). About 58% of total exports in FY21 were to Australia, Canada, USA, UK and New Zealand.

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

Stable financial performance in FY21, expected to improve in FY22
The Company's operational and financial performance has largely remained stable in FY21 despite Covid related disruptions. The overall Capacity utilization marginally declined to 77% (PY:83%) and is expected to remain healthy in FY22. Improved product mix and cost optimization initiatives undertaken in FY21 resulted in increase in operating margins from 9.41% in FY20 to 10.05% in FY21 and further to 10.82% in Q1FY22. Operating margins are expected to remain at healthy levels driven by higher volumes and realizations in FY22. With the capex intensity reducing, the total debt of the company has come down to Rs.357.65 crore in FY21 from Rs.367.75 crore in FY20 primarily on account of lower working capital utilization. As a result, overall gearing improved to 1.00x as of 31st March 2021 from 1.07x as of 31st March 2020. Interest coverage ratios also improved marginally with PBILDT interest cover at 2.80x (PY: 2.53x) at the end of FY21. However, during Q1FY22 the total debt increased to Rs.393.34 crore on account of higher working capital utilization as on June 30, 2021. Going ahead, gearing is expected to remain around 0.87 in FY22 in absence of any large debt funded capex.

Stable Working Capital Cycle
The working capital cycle of the company continues to be stable in the range of 20-25 days and is expected to remain at similar levels in FY22. 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 moderately working capital intensive with dependence on working capital borrowings (over 48% of 12 months ending May 2021).

Key Rating Weakness
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 prices of both the raw materials increased from Rs.44/kg and Rs.38/kg in Apr'20 to Rs.66/kg and Rs.59/kg in Apr'21. 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 value terms, imports account for around Rs.20-25 crore on a monthly basis. In FY21 exports accounted for 42% of the total revenue. ASL made a forex loss of Rs.1.42 crore in FY21 as opposed to forex gain of Rs.0.15 crore in FY20.

Industry outlook and prospects
The domestic MMF industry mainly comprises of two components i.e., polyester and viscose, which together accounts for about 95% (in volume terms). Under this, polyester accounts for about 80% while viscose accounts for the balance. Easing of various restrictions and vaccination program is expected to support domestic demand for MMF segment as well during FY22. In addition to this to improve MMF exports, the government announced Production Linked Incentive (PLI) scheme in November 2020 for MMF segment and technical textiles for Rs. 10,683 crore which will be spread over a period of 5 years. This is likely to encourage MMF exports from India going forward.

Liquidity analysis: Adequate
The liquidity of the company improved and remains adequate marked by strong gross cash accruals of Rs.56.10 crore in FY21 & Rs.22.69 crore in Q1FY22 and cash & liquid investments of Rs.31.60 crore as on June 30, 2021. The Company has average utilization of 48% and average maximum utilization of 84% in the last 12 months ending May 2021. Against this, the company has scheduled repayments of Rs.39.32 crore in FY22.

Analytical Approach: Standalone

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

About the Company
Established in 1983, ASL is engaged in manufacturing of wide range of texturized/dyed polyester and nylon yarn from its two manufacturing units located at Silvassa 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 (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	1029.91	948.92	307.76
PBILDT	96.87	95.35	33.29
PAT	17.41	14.09	9.24
Overall gearing (times)	1.07	1.00	1.07
Interest coverage (times)	2.53	2.80	4.08

A: Audited; UA: Unaudited
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of 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-Term Loan	-	-	September 2026	141.88	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	251.00	CARE A2+
Fund-based-Short Term	-	-	-	79.00	CARE A2+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	141.88	CARE A-; Positive	-	1)CARE A-; Stable (08-Oct-20)	1)CARE A; Stable (07-Oct-19)	1)CARE A; Stable (12-Dec-18)
2.	Non-fund-based - ST-BG/LC	ST	251.00	CARE A2+	-	1)CARE A2+ (08-Oct-20)	1)CARE A1 (07-Oct-19)	1)CARE A1 (12-Dec-18)
3.	Fund-based-Short Term	ST	79.00	CARE A2+	-	1)CARE A2+ (08-Oct-20)	1)CARE A1 (07-Oct-19)	1)CARE A1 (12-Dec-18)
4.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (12-Dec-18)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Dec-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-Short Term	Simple
3.	Non-fund-based - ST-BG/LC	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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About CARE Ratings:
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