

Ajay (India) Limited (Revised)

July 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	20.13	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities	21.50 (Enhanced from 8.90)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE C; Stable; (Single C; Outlook: Stable)
Long Term / Short Term Bank Facilities	13.50	CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable/ A Four)	Assigned
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	55.13 (₹ Fifty-Five Crore and Thirteen Lakhs Only)		

Details of instruments/facilities in Annexure-1.

In the absence of minimum information required for the purpose of ratings, CARE Ratings Limited was unable to express an opinion on the ratings of Ajay (India) Limited (AIL) and in line with the extant SEBI guidelines, CARE Ratings Limited had placed the ratings of bank facilities of the company to 'CARE C; Stable/ CARE A4; ISSUER NOT COOPERATING'. However, the company has now submitted the requisite information to CARE Ratings Limited. CARE has carried out a full review of the ratings and the ratings stand at 'CARE BB-; Stable/ CARE A4'.

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of AIL is on account of availability of requisite information including FY22 (Provisional; refers to the period from April 01 to March 31) and operational details. The revision in ratings continue to take into account experienced promoters along with established track record of operations, its presence in textile cluster with ease of availability of raw material and labour and stable industry outlook.

The ratings, however, continue to remain constrained due to moderate scale of operations and profitability, leveraged capital structure and weak debt coverage indicators, working capital intensive operations and stretched liquidity. The ratings, further, continued to remain constrained due to limited presence of AIL in the textile value chain and volatility associated with raw material prices and its presence in competitive and fragmented Textile industry along with the project risk associated with the planned CAPEX.

Rating sensitivities

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

- Completion of capex in time and cost parameters and benefits thereon resulting in increase in scale of operation with TOI of more than Rs.100 crore.
- PBILDT margin beyond 10% on sustained basis.
- Improvement in capital structure with overall gearing below 2 times.

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

- Delay in project and cost overrun.
- Decline in TOI below Rs.40 crore and PBILDT margin below 7% on sustained basis.
- Any debt funded capex other than envisaged leading to further deterioration in capital structure

Detailed description of the key rating drivers

Key rating weaknesses

Moderate scale of operations and profitability

The scale of operations of AIL had been in a downward trend during FY18-FY21, however during FY22, revenue has improved by ~67% on y-o-y basis to Rs.69.71 crore from Rs.41.58 crore during FY21 as the overall demand of the textile product rises due to pent up demand after COVID impact as well as increase in share of exports from India due to various geopolitical reasons along with various government efforts in increasing productivity of the sector. PBILDT margins had been on an increasing trend from FY18-FY21 however during FY22, PBILDT margin deteriorated and remained at 10.66% vis-à-vis 20.65% during FY21 on account of an increase in raw material cost during the year.

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

Leveraged Capital structure and weak debt coverage indicators

Capital structure marked by overall gearing however moderated as compared with previous years remained leveraged at 2.75 times as on March 31, 2022 due to higher term loans as well as higher utilisation of working capital limits. Interest Coverage remains stable at 1.77 times during FY22 (PY:1.68 times). Financial cost declined during FY22 however, PBILDT remained lower in FY22 compared with FY21.

Working Capital intensive operations

Working capital cycle of AIL is high however moderated from 365 days in FY21 to 204 days during FY22 on account of decrease in average inventory period. Inventories remain stable despite increase in scale of operations which augmented well in reduction of working capital cycle of AIL. The inventory level remains high to execute orders in timely manner.

Project Risk associated with planned CAPEX

AIL is undergoing for expansion project to buy additional 56 Air-jet looms. Total estimated project cost is Rs.19.40 crore which will be funded through project gearing of 5.46x. Net increase in capacity will be 58 lakhs meter per annum.

Limited presence in Textile value chain along with susceptibility associated with volatile raw material price

AIL has limited presence in the Textile value chain as it is engaged in the business of fabric manufacturing only. The primary raw materials used by AIL to manufacture grey fabrics is Polyester Yarn which is the derivative of the crude oil and hence the profit margins of AIL are susceptible to volatility in the prices of these raw materials. The fragmented nature of the business will limit the ability of the company to pass on changes in raw material prices exposing its profitability to volatile raw material prices.

Presence in the competitive and fragmented Textile industry

Company operates in a highly competitive and fragmented textile industry. The company witnesses intense competition from both organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

Key Ratings Strengths**Experienced promoters with established track record of operations**

Being a part of Ajay Group of Industries, AIL derives synergic benefits in the form of experienced management. Mr Rameshwarlal Kabra and Mr Ashok Kabra are promoter directors of AIL and have more than two decades of experience in the textile industry. AIL has a long track record of operations of over a decade. The company sells finished synthetic fabric under the brand name of 'Wipro'.

Presence in textile cluster with ease of availability of raw material and labour

AIL's manufacturing facility is located in Bhilwara (Rajasthan) which is one of the largest textile clusters in India and also known as the 'Textile city of India'. This results in benefits in terms of easy availability of main raw material, labour as well as proximity to selling area.

Stable Industry Outlook

The demand outlook of textile industry is expected to remain stable. The textile industry is closely linked with the macroeconomics of a country; the industry has witnessed a sharp demand recovery in both domestic and export segments, during FY22 in tandem with the full resumption of country's economic activities. Due to sharp increase in prices of cotton during FY22 the demand for man-made fibre (MMF) especially polyester a substitute of cotton has witnessed an increase in demand.

Liquidity: Stretched

The liquidity of AIL remains stretched on account of higher gross loan repayments as against gross cash accruals. Average working capital utilisation for the past twelve months ended June 2022 remains at ~90%. Cash flow from operations however improved to Rs.10.71 crore in FY22 as against Rs.2.45 crore in FY21 on back of stable PBILDT and reduction in absolute inventories and receivables during the year. Working capital cycle remains elongated at 204 days however improved from 365 days on account of decline in average inventory days. The current ratio and quick ratio remained at 1.50x and 0.39x as on March 31, 2022 (PY: 1.37x and 0.36x) respectively. Further, during FY22, AIL had availed additional GECL of Rs.4.02 crore, repayment of which will commence from December 2023.

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](#)

[Policy on Withdrawal of Ratings](#)

[Rating Methodology: Manmade Yarn Manufacturing](#)

[Rating Methodology: Manufacturing Companies](#)

About the company

Ajay India Limited (AIL), incorporated in 1996, is promoted by Kabra family of Bhilwara (Rajasthan) and belongs to Ajay Group of Industries based out of Bhilwara, Rajasthan. The group is engaged in the business of manufacturing of finished synthetics fabrics from polyester yarn since 1987 through group concern which includes AIL and Rolex Processor Private Limited. AIL is engaged in the business of manufacturing of synthetics grey fabrics from polyester yarn and gets the processing work done on grey fabrics from Rolex processors Private Limited on job work basis. The manufacturing facility of the company is located in Bhilwara, Rajasthan and has total 20 Sulzer looms and 96 Air-jet looms as on March 31, 2022 with an installed capacity of 158.70 lakh meters per annum. AIL sells finished synthetic fabrics under the brand name of 'Wipro'. The company is also engaged in trading of grey and finished fabric.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	3MFY23 (P)
Total operating income	41.58	69.71	21.61
PBILDT	8.59	7.44	NA
PAT	1.68	2.03	
Overall gearing (times)	3.28	2.75	
Interest coverage (times)	1.68	1.77	

A: Audited, P: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: Acuite has put ratings assigned to the bank facilities of AIL in to 'Issuer Not Cooperating' category vide press release dated September 02, 2021 on account of its inability to carry out a rating exercise 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	21.50	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	July 2027	10.07	CARE BB-; Stable
Fund-based - LT-Working capital Term Loan		-	-	November 2026	10.06	CARE BB-; Stable
Fund-based - LT/ ST-Term loan		-	-	March 2031	13.50	CARE BB-; Stable / 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	21.50	CARE BB-; Stable	-	1)CARE C; Stable; ISSUER NOT COOPERATING* (16-Aug-21)	1)CARE C; Stable; ISSUER NOT COOPERATING* (23-Jun-20)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (30-Apr-19)
2	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)CARE A4; ISSUER NOT COOPERATING* (16-Aug-21)	1)CARE A4; ISSUER NOT COOPERATING* (23-Jun-20)	1)CARE A4; ISSUER NOT COOPERATING* (30-Apr-19)
3	Fund-based - LT-Term Loan	LT	10.07	CARE BB-; Stable				
4	Fund-based - LT-Working capital Term Loan	LT	10.06	CARE BB-; Stable				
5	Fund-based - LT/ ST-Term loan	LT/ST*	13.50	CARE BB-; Stable / CARE A4				

*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 Term Loan	Simple
4	Fund-based - LT/ ST-Term loan	Simple
5	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 instrument: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.care@careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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