

Akshar Spintex Limited

August 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	16.97 (Reduced from 18.67)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
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 ratings assigned to the bank facilities of Akshar Spintex Limited (ASL) continues to remain constrained on account of moderate scale of operations and profitability along with stretched liquidity during FY22 (Audited, refers to period April 01 to March 31). The ratings also take into consideration project risk associated with its upcoming windmill project. The ratings further continue to remain constrained due to susceptibility of its profitability to volatile raw-material prices coupled with presence of ASL in highly fragmented and competitive cotton industry.

The ratings, however, continue to derive strength from experienced promoters, location advantage of being present in cotton producing belt of Gujarat, availability of fiscal benefits from the Government and comfortable capital structure along with improvement in debt coverage indicators.

Rating sensitivities

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

- Achieving TOI of Rs.200 crore with sustaining profitability margins
- Sustaining comfortable capital structure and debt coverage indicators
- Improvement in liquidity position marked by better inventory management and generating positive cash flows from operations

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

- Decline in scale of operations by more than 40%
- Decline in PBILDT margins below 5%
- Any major debt funded capex other than currently projected leading to deterioration in leverage position of the company marked by overall gearing above two

Detailed description of the key rating drivers

Key ratings weaknesses

Growing albeit moderate scale of operations and profitability

During FY22, ASL's scale of operations improved by ~56% y-o-y to Rs.172.52 crore from Rs.110.24 crore in FY21 due to better price realisation and moderate volume growth. The cotton prices during the year had increased significantly which led to higher price realisation of cotton yarn. However, volume growth remained moderate at ~7%. Further, the profitability as marked by PBILDT margin improved by 285 bps y-o-y to 7.51% mainly on account of relative decrease in power cost as sales of traded goods has increased y-o-y. PAT margins improved from 1.12% in FY21 to 4.04% in FY22 due to stable depreciation and finance cost on an absolute basis.

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

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

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 ratings 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 and debt coverage indicators

ASL's capital structure continued to remain comfortable as marked by overall gearing ratio of 0.59 times as on March 31, 2022 as against 0.69 times as on March 31, 2021 owing to higher net worth due to accretion of profits to reserves. Total debt remained stable on an absolute basis as decline in long term debt due to scheduled repayment term loans offsets by higher utilisation of its working capital limits.

Debt coverage indicators improved in line with an increase in profits and remained comfortable marked by total debt to GCA (TDGCA) of 2.08 years as on March 31, 2022 against 6.34 years as on March 31, 2021. Further, the PBILD interest coverage ratio has also improved and remained at 5.03 times during FY22 as against 2.04 times during FY21 on account of improved operating profitability.

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 non-fund-based limits remained almost full during the past 12 months ended July, 2022. ASL has cash and bank balance of Rs.0.05 crore as on March 31, 2022 (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 Rs.12.32 crore in FY22. 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](#)

[Rating Methodology: Cotton Textile](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

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)	Q1FY23 (Prov.)
Total operating income	110.24	172.52	49.11
PBILDT	5.14	12.96	3.00
PAT	1.24	6.98	1.07
Overall gearing (times)	0.69	0.59	0.51
Interest coverage (times)	2.04	5.03	6.81

A: Audited, Prov.: Provisional

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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	7.50	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	1.35	CARE A4
Fund-based - LT-Term Loan		-	-	April 2023	3.60	CARE BB+; Stable
Fund-based - LT-Working Capital Demand loan		-	-	December 2026	5.87	CARE BB+; Stable

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 (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 (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 (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 (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 companyTo 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.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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