

**A B Cotspin India Limited**

January 16, 2020

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	37.17	<b>CARE BB+; Stable; ISSUER NOT COOPERATING*</b> <b>(Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating based on best available information
Short-Term Bank Facilities	7.00	<b>CARE A4+</b> <b>(A Four Plus; ISSUER NOT COOPERATING)</b>	Issuer not cooperating based on best available information
<b>Total</b>	44.17 (Rupees Forty Four Crores and Seventeen Lakhs Only)		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

CARE has been seeking information from A B Cotspin India Limited (ABCIL) to monitor the ratings vide e-mail communications/letters dated June 11, 2019, July 02, 2019, July 15, 2019, July 18, 2019, September 12, 2019, October 31, 2019, November 11, 2019, December 12, 2019, December 13, 2019, December 15, 2019 and December 16, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on A B Cotspin India Limited's bank facilities will now be denoted as **CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.**

The ratings take into account low PBILDT margins and leveraged capital structure. The ratings are further constrained by the customer concentration risk, susceptibility of margins to raw material price volatility & foreign exchange fluctuations and highly competitive & fragmented nature of the textile industry. The ratings, however, derive strength from the experienced directors and long standing industry presence, satisfactory debt coverage indicators and integrated nature of operations at a favorable location with diversified product profile.

**Detailed description of the key rating drivers**

*At the time of last rating on September 07, 2018, the following were the ratings' strengths and weaknesses (updated for the information available from Registrar of Companies):*

**Key rating weaknesses**

**Low PBILDT margins with leveraged capital structure:** The PBILDT margins of the company continued to remain low and further declined to 6.37% in FY19 (refers to the period from April 1 to March 31) from 6.70% in FY18. The capital structure of the company remained leveraged as on March 31, 2019 marked by debt to equity ratio and overall gearing ratio of 0.85x and 2.08x, respectively. The same however, improved from 1.08x and 2.52x, respectively, as on March 31, 2018 on account of repayment of the term loans during FY19.

**Customer concentration risk:** In FY18, top five customers contributed ~47% of ABCIL's total income while ABCIL's top customer contributed ~19% of the total operating income during the year. This exposes the revenue profile of ABCIL to a customer concentration risk.

**Susceptibility of margins to raw material price volatility and foreign exchange fluctuations:** The primary raw material of the company is cotton, prices of which are highly volatile in nature thereby exposing profitability margins of the company to any adverse movement in the raw material prices.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

**Highly competitive and fragmented nature of the industry:** The textile industry is highly competitive and fragmented in nature with the presence of a large number of players in the organized and unorganized sector.

#### Key Rating Strengths

**Experienced directors and long standing industry presence:** ABCIL was established in 1997. The company is currently being managed by Mr. Deepak Garg who holds an industry experience of around 30 years through his association with ABCIL. The other directors of the company, Mr. Ramesh Kumar and Mr. Parush Goyal, hold an industry experience of ~7 years and ~5 years, respectively, through ABCIL. ABCIL's long standing presence in the textile industry has led to established relationships with the customers as well as the suppliers.

**Satisfactory debt coverage indicators:** The interest coverage ratio improved marginally from 2.53x in FY18 to 2.72x in FY19 on account of lower interest expenses incurred in FY19. The total debt to GCA ratio also improved to 8.24x, as on March 31, 2019, from 9.10x, as on March 31, 2018, on account of lower debt outstanding, as on March 31, 2019.

**Integrated nature of operations at a favorable location with diversified product profile:** The company engages in the end to end processing of raw cotton to fabric. It has a ginning capacity of 5000 MTPA (metric tons per annum) through which it meets almost 100% of its requirement of spinning to cotton yarn. For manufacturing of knitted cloth also almost 100% of the yarn requirement is met in-house. The cotton seeds obtained as a by-product of the ginning process are also processed for extraction of cotton oil and de-oiled cakes. This leads to a high level of operational integration. The company operates from its manufacturing unit in Bathinda, Punjab and sells directly to textile units located primarily in Punjab and Haryana. Both these states are well established textile hubs and the company therefore benefits from the location advantage in terms of easy accessibility and close proximity to a large customer base. The product profile of the company is diversified and includes: ginned cotton, cotton seeds, cotton seed oil and cakes, cotton yarn, knitted cotton cloth and cotton waste. Further, the yarn is manufactured in various types- single yarn of counts 20-30s, double yarn of counts 20-30s, slub yarn etc. The knitted cloth is also manufactured in various varieties- combed, carded, slub, etc.

**Analytical approach:** Standalone

#### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating methodology for cotton textile manufacturing](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

#### About the Company

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 added cotton spinning operations to its profile in 2011 while it added manufacturing facilities for cotton fabrics in 2014. ABCIL operates from a single integrated manufacturing facility in Bathinda, Punjab at an installed capacity of 5000 MTPA of cotton, 4320 MTPA of yarn and 1512 MTPA of fabric and around 300 kg/day of oil, as on March 31, 2018. A small proportion of income is also derived from exports to China, Malaysia, Thailand, Vietnam etc. with export sales constituting ~2% of the total income in FY18. The company also derives a portion of its income from trading of yarn etc. (~5% in FY18). Majority shareholding in ABCIL (approximately 91% as on March 31, 2018) was held by the Delhi based Jindal family which has business interests in edible oil, real estate, education etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	121.32	121.06
PBILDT	8.13	7.71
PAT	1.14	1.42
Overall gearing (times)	2.52	2.08
Interest coverage (times)	2.53	2.72

A: Audited

**Status of non-cooperation with previous CRA:** Brickwork Ratings has reviewed the rating for the bank loan facilities of ABCIL on the basis of best available information and classified ABCIL as "Not Co-operating" vide its press release dated August 31, 2018.

CRISIL has suspended its ratings vide press release dated June 18, 2015 on account of non-cooperation by ABCIL with CRISIL's efforts to undertake a review of the outstanding ratings.

**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	-	-	-	23.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - ST-Working Capital Limits	-	-	-	7.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	Nov-2024	14.17	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

*\*Issuer not cooperating; based on best available information*

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	23.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB+; Stable (07-Sep-18)	-	-
2.	Fund-based - ST-Working Capital Limits	ST	7.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4+ (07-Sep-18)	-	-
3.	Fund-based - LT-Term Loan	LT	14.17	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB+; Stable (07-Sep-18)	-	-

*\*Issuer not cooperating; based on best available information*

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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##### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

##### Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.