

A B Cotspin India Limited

September 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	37.17	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	7.00	CARE A4+ (A Four Plus)	Assigned
Total Bank Facilities	44.17 (Rupees Forty four crores and seventeen lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of A B Cotspin India Limited (ABCIL) remain constrained by the low & declining profitability margins, leveraged capital structure and customer concentration risk. The ratings are further constrained by the susceptibility of the profitability margins to volatility in raw material prices and the competitive & fragmented nature of the textile industry.

The ratings, however, derive strength from the long standing industry presence of the company along with experienced directors, increasing scale of operations, satisfactory debt coverage indicators, diversified product profile and the integrated nature of operations at a favourable location.

Going forward, the ability of the company to scale up its operations, while improving its profitability as well as its solvency position, will remain a key rating sensitivity.

Detailed description of the key rating drivers

Key rating weaknesses

Low & declining profitability margins: The PBILDT margins of the company have declined on a year-on-year basis from 10.52% in FY16 (refers to the period April 01 to March 31) to 6.70% in FY18. This is primary attributable to the inability of the company to pass on increased prices of raw materials (cotton) entirely to the customer especially in the relatively recent fabric segment (started in 2014). Further in FY18, the company, to sustain demand, also had to compromise on margins during the implementation of the Goods and Service Tax (GST) regime in July-2017. The PAT margins also remained low at 0.94% in FY18.

Leverage capital structure: The capital structure of the company remained leveraged with the long term debt to equity ratio and overall gearing ratio of 1.08x and 2.52x respectively, as on March 31, 2018.

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 to any adverse movement in the raw material prices.

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.

Increasing scale of operations and satisfactory debt coverage indicators: The scale of operations of the company has increased at a compounded annual growth rate of ~9% in the FY16-18 period owing to the year-on-year increase in demand for the company's main products viz. yarn and fabric. Further, in 2MFY19 (Provisional) the company has achieved sales of Rs.15.53 Cr. which grew by ~15% over the same period last year on account of better demand. The debt coverage indicators of the company remained at a satisfactory level with the interest coverage ratio of 2.53x in FY18 and total debt to GCA at 9.10x, as on March 31, 2018.

Integrated nature of operations at a favorable location: The company engages in 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 at an installed capacity of 4320 MTPA. For manufacturing of knitted cloth also almost 100% of the yarn requirement in met in-house. The cotton seeds obtained as a by-product of the ginning process are also processed for extraction of cotton oil and deoiled 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.

Diversified product profile: The product profile of the company is diversified and includes: ginned cotton (~1% of the total income in FY18), cotton seeds (~2%), cotton seed oil and cakes (~9%), cotton yarn (~58%), knitted cotton cloth (~25%) and cotton waste (~4%). 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

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

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

[CARE's methodology for cotton](#)

[Criteria for Short Term Instruments](#)

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 subsequently added cotton spinning operations to its profile in 2011 while it also added manufacturing facilities for cotton fabric 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. The company sells primarily to textile units located in Punjab, Haryana etc. 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). ABCIL's shareholders include the Jindal family (Delhi based) which has business interests in edible oil, real estate, education etc. Together, the held ~91% stake in ABCIL as on March 31, 2018. The related parties of ABCIL therefore include the Delhi based Jindal Oil group and Mohali based Homeland group (engaged in real estate).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	108.13	121.32
PBILDT	9.50	8.13
PAT	0.69	1.14
Overall gearing (times)	1.82	2.52
Interest coverage (times)	2.02	2.53

A: Audited

Status of non-cooperation with previous CRA: 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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Fund-based - ST-Working Capital Limits	-	-	-	7.00	CARE A4+
Fund-based - LT-Term Loan	-	-	March-2021	14.17	CARE BB+; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	23.00	CARE BB+; Stable	-	-	-	-
2.	Fund-based - ST-Working Capital Limits	ST	7.00	CARE A4+	-	-	-	-
3.	Fund-based - LT-Term Loan	LT	14.17	CARE BB+; Stable	-	-	-	-

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