AYM Syntex Limited

October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (Term Loan)	181.76 (reduced from 207.20) (Rupees One Hundred and Eighty One Crore and Seventy Six lakhs only)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities (Fund Based)	79.00 (enhanced from 65.00) (Rupees Seventy Nine Crores only)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
Short Term Bank Facilities (Non Fund Based)	251.00 (enhanced from 210.00) (Rupees Two Hundred and Fifty One Crores only)		
Total	**511.76 (Rs. Five hundred and eleven crore and seventy six lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the facilities of AYM Syntex Limited (AYM) is on account of moderation in its profitability in Q1FY21 arising primarily out of shutdown of plants due to outbreak of COVID-19 pandemic leading to losses at PBILDT and PAT level and weak demand outlook for textiles. CARE expects the recovery to be slow and gradual due to likely curtailment of discretionary spending by customers. CARE takes cognizance of the various liquidity management and cost initiatives being undertaken by the company. The Company has taken moratorium on its debt obligations till August 30, 2020, capitalized its deferred interest payments on term debt for next year and taken an emergency Covid loan. It has also undertaken rationalization of its manpower cost, renegotiation with its suppliers etc so as to counter the loss of sale and challenging operating environment arising from the pandemic. The ratings continue to derive strength from strong promoter group, demonstrated support from promoters in, established clientele with low customer concentration, and geographically diversified revenue mix with exports contributing 40% in FY20 and 68% in Q1FY21, improvement in financial and operational performance in FY20 and stable working capital cycle.

AYM has obtained a moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

The rating strengths continue to be tempered by exposure to risk of fluctuation in raw material prices & foreign exchange currency risk.

Rating Sensitivities

Positive factors

- Sustained improvement in profitability to above 12% on a sustained basis

Negative factors

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management

Established in 1983, ASL was 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 the Managing Director of Welspun India Ltd and co-promoter of Welspun Group. AYM has developed varieties of yarn, i.e. air texturized yarn, mono filament yarn, IDY yarn, sewing thread yarn, automotive yarn and other fancy

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

yarns. The promoters of the company have infused ~ Rs.84 crores into the company over FY18 –FY20 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 as revenue contribution in FY20 from the top 5 customers is 25%, while that from the top 10 customers is 36%. Exports contributed to ~ 40% of the total revenue in FY 20(35% in FY19) and 68% in Q1FY21. About 30% of total exports in FY20 were to Australia and New Zealand.

Improvement in operating and financial performance in FY20: The Company's operational and financial performance has improved in FY20. While overall Capacity utilization remained stable at 83%; improvement in BCF realizations coupled with softening of input prices resulted increase in operating margins from 7.70% in FY19 to 9.41% in FY20. With the capex intensity reducing, the total debt of the company has come down Rs. 368 crs in FY 20 from Rs.414 crore in FY19. In FY 20, ~ Rs.28 crore of Intercorporate Deposits (ICDs) were converted into equity which further boosted the capital structure. As a result, overall gearing improved to 1.07x as of 31st March 2020 from 1.37x as of 31st March 2019. Term debt/GCA and Total debt/GCA stood at 3.75x (PY: 5.94x) and 6.91x (PY: 9.85x) respectively at the end of FY20. Interest coverage ratios also improved marginally with PBILDT interest cover at 2.53x (PY: 2.23x) at the end of FY20.

Stable Working Capital Cycle: The working capital cycle of the company continues to be stable in the range of 20-25 days. 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 ~ 90% of the business is made to order, the inventory stocking period is less than a month. However, overall operations are working capital intensive with dependence on working capital borrowings (average utilisation being over 70% of 12 months ending August 2020).

Key Rating Weaknesses

Covid 19 expected to moderate FY21 performance; liquidity remains stretched

The Company's FY21 performance is likely to moderate with Q1 seeing maximum impact of fall in sales volumes due to lockdown and Q2 and Q3 being quarters of gradual recovery and pick up in sales. The Company's liquidity remain stretched with its average maximum utilization of 84% in the last 12 months ending August 2020. The Company had undertaken moratorium for upto 6 months on its debt obligations on its term loans and working capital facilities. The Company has also availed of an emergency Covid loan. The deferred interest payments on its term loan have been capitalized which are expected to help its current liquidity position.

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). 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, the company 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 FY20 exports accounted for 39% of the total revenue. The earnings in foreign exchange were ~ Rs. 404 crores while the outgo was~ Rs. 329 crore for the FY 20. The Company made a gain of Rs. 0.15 crs in FY 20 as opposed to loss of Rs 0.01 crore in FY 19.

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. During the year FY19, man-made fibre production in India increased by 3.8% to 2,602 million kg. The output for the first 9 months of FY20 grew by a higher 5.7% to 2,054 million kg. The demand for textiles will face headwinds in both the markets, domestic and international. Going forward the textile industry scenario will depend on how the situation evolves in the domestic and international markets and faster return to normalcy will enable the industry to curtail the damages and improve on its growth prospects.

Liquidity: Stretched – The Company has average utilization of 71% and average maximum utilization of 84% in the last 12 months ending August 2020. The Company had undertaken moratorium for upto 6 months on its debt obligations on its term loans and working capital facilities. The Company has also availed of Rs.3.12 crore of emergency Covid loan. The deferred interest on its term loan obligations have been capitalized; easing the burden on the company for FY21. At the end of August

2020, the Company had unencumbered cash/investments of ~ Rs. 19 Crs. (cash of Rs. 2.33 crore, FDs of Rs. 15.69 crore, as well as DSRA of Rs. 2.96 crore). Against this, the company has scheduled repayments (post moratorium) of Rs. 30.40 crore in FY 21.

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, AYM 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). AYM has also 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.

Consolidated Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	996.67	1029.91
PBILDT	76.69	96.87
PAT	5.86	17.41
Overall gearing (times)	1.37	1.07
Interest coverage (times)	2.23	2.53

A: Audited

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 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-Term Loan	March 2012	-	March 2021	181.76	CARE A-; Stable
Fund-based - LT-Term Loan	July 2015	-	December 2026		
Fund-based - LT-Term Loan	July 2015	-	December 2025		
Fund-based - LT-Term Loan	March 2012		December 2024		
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	181.76	CARE A-; Stable	-	1)CARE A; Stable (07-Oct-19)	1)CARE A; Stable (12-Dec-18)	1)CARE A; Stable (14-Sep-17)
2.	Non-fund-based - ST-BG/LC	ST	251.00	CARE A2+	-	1)CARE A1 (07-Oct-19)	1)CARE A1 (12-Dec-18)	1)CARE A1 (14-Sep-17)
3.	Fund-based-Short Term	ST	79.00	CARE A2+	-	1)CARE A1 (07-Oct-19)	1)CARE A1 (12-Dec-18)	1)CARE A1 (14-Sep-17)
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (12-Dec-18)	1)CARE A1 (14-Sep-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (12-Dec-18)	1)CARE A; Stable (14-Sep-17)

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:

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.

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