

Akshar Spintex Limited

July 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	24.45	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short-term Bank Facilities	1.35	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus)
Total	25.80 (Rupees Twenty Five Crore and Eighty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Akshar Spintex Limited (ASL) is mainly on account of net loss as well as cash loss along with significant deterioration in its debt coverage indicators during FY20 (Audited – refers to period from April 1 to March 31). Further, ratings continue to remain constrained on account of its moderate scale of operations as well as stretched liquidity during FY20 along with susceptibility of its profitability to volatile raw-material prices as witnessed during FY20 as well as its presence in highly fragmented and competitive cotton industry.

The ratings, however, derive strength from experienced promoters and location advantage of being presence in cotton producing belt of Gujarat along with availability of fiscal benefits from the Government. The ratings also take note of ASL's comfortable capital structure during FY20.

Rating sensitivities

Positive factors

- Growth in its scale of operations by 30% along with conversion of net loss into net income at previous levels on sustained basis
- Improvement in debt coverage parameters marked by interest coverage ratio above 5 times and total debt to GCA ratio of below 5 times on sustained basis

Negative factors

- Stretched liquidity position leading to below unity current ratio
- Further deterioration in the debt coverage indicators
- Adverse change in government policies for cotton industry affecting raw material prices for ASL

Detailed description of the key rating drivers

Key Rating Weaknesses

Net loss as well as cash loss during FY20

During FY20, operating margin of the company has declined significantly marked by PBILDT margin of 2.30% as against 9.83% during FY19. Decline in PBILDT margin was primarily on account of higher raw material costs during FY20. Consequently, ASL's net income of Rs.2.24 crore during FY19 converted into net loss of Rs.5.73 crore during FY20. This further resulted into cash loss of Rs.1.33 crore during FY20 as against cash profit of Rs.7.65 crore in FY19.

Deteriorating debt coverage indicators

Debt coverage indicators of the company deteriorated significant marked by interest coverage of 0.84 times during FY20 as against 3.88 times during FY19 owing to significant decline in operating profit during FY20. Further, total debt to GCA of ASL also deteriorated and stood weak as on March 31, 2020 on account of cash loss during FY20.

Moderate scale of operations

Total operating income (TOI) of ASL has witnessed marginal growth during FY20, however, it continued to remain moderate at Rs.111.09 crore as against Rs.104.93 crore during FY19.

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 as witnessed during FY20.

Presence in highly fragmented and competitive cotton yarn 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.

Key Rating Strengths

Experienced promoter in textile industry

ASL is promoted by Mr. Amit Gadhiya having an experience of more than two decades through his association with a trading entity engaged into cotton ginning. Mr. Ashok Bhalala is associated with ASL since inception. Mr. HariKrushna Chauhan is also associated with the company in the capacity of Director 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 has a geographical advantage in terms of lower logistics expenditure (both on the transportation and storage) & ready availability of raw materials.

Availability of fiscal benefits from the government

ASL is entitled to get various subsidies under the Revised Technology Up-gradation Fund Scheme (RTUFS). These benefits include capital subsidy, interest subsidy, power tariff subsidy, refund of VAT on SGST paid by the unit on purchases of intermediate product/raw material and remission of tax collected on end product/intermediate product made up to the extent of 100% the eligible fixed capital investments in plant and machinery made within one year (two years in case of investment more than 500 crore) from the date of production.

Comfortable capital structure

Although, tangible net worth of ASL deteriorated as on March 31, 2020 owing to net loss during FY20, its capital structure marked by overall gearing continued to remain comfortable and stable at 0.84 times as on March 31, 2020 as against 0.81 times as on March 31, 2019 owing to decline in total debt level on account of scheduled repayment of term loan.

Liquidity analysis: Stretched

Liquidity position of the company remained stretched marked by cash loss of Rs.1.33 crore during FY20 as against scheduled debt repayments of Rs.3.16 crore for FY21. However, scheduled repayments are expected to be serviced by estimated subsidy income of Rs.3.63 crore during FY21 (including Rs.2.13 crore already received till June 30, 2020). Further, the entity has availed moratorium for its term loan principal and interest obligations for six months from March, 2020-August, 2020 under COVID-19 relief measure, which is expected to provide cushion in near term. Further, with increase in the scale of operations, the average working capital limits utilization during past twelve months ended on June, 2020 remained high at 90%. Cash and bank balance as on March 31, 2020 stood at Rs.1.12 crore.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

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

[Liquidity Analysis-Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Cotton Yarn Industry](#)

About the company

Jamnagar-based (Gujarat), Akshar Spintex Limited (ASL) was established 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. ASL manufactures carded, combed and compact cotton yarn of finer quality ranging between 16s to 44s counts having 24480 spindles with an installed capacity of 60000 Metric Tonnes and operates from its sole manufacturing facility located at Haripar, Jamnagar (Gujarat).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	104.92	111.09
PBILDT	10.14	2.56
PAT	2.24	(5.73)
Overall gearing (times)	0.81	0.84
Interest coverage (times)	3.88	0.84

A: Audited

As per provisional Q1FY21 results (refers to the period from April 01 to June 30), ASL has registered TOI of Rs.11.00 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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-Cash Credit	-	-	-	9.00	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.35	CARE A4
Fund-based - LT-Term Loan	-	-	-	15.45	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 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-Cash Credit	LT	9.00	CARE BB; Stable	-	1)CARE BB+; Stable (07-Nov-19)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	1.35	CARE A4	-	1)CARE A4+ (07-Nov-19)	-	-
3.	Fund-based - LT-Term Loan	LT	15.45	CARE BB; Stable	-	1)CARE BB+; Stable (07-Nov-19)	-	-

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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