

## Akshar Spintex Limited

November 04, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	22.87 (Reduced from 24.45)	<b>CARE BB; Stable</b> <b>(Double B; Outlook: Stable)</b>	Reaffirmed
Short Term Bank Facilities	1.35	<b>CARE A4</b> <b>(A Four)</b>	Reaffirmed
<b>Total Facilities</b>	<b>24.22</b> <b>(Rs. Twenty-Four Crore and</b> <b>Twenty-Two Lakhs Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Akshar Spintex Limited (ASL) continue to remain constrained on account of its moderate scale of operations with losses incurred, weak debt coverage indicators and stretched liquidity during FY20 (refers to period from April 1 to March 31). Further, ratings continue to remain constrained on account of susceptibility of its profitability to volatile raw-material prices 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 present 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

**Moderate scale of operations with losses:** Total operating income of ASL grew marginally by 6% and stood moderate at Rs.111.03 crore in FY20 as compared to Rs.104.92 crore in the previous year. With an increase in cost of raw materials; ASL's PBILDT margin declined significantly and stood at 2.25% for the FY20 as compared to 9.83% in the previous year. Consequently the company booked a net loss and cash loss of Rs.5.73 crore and Rs.1.33 crore respectively in FY20 as compared to a net profit and cash profit of Rs. 2.24 crore and Rs.7.67 crore respectively in FY19. During H1FY21, ASL reported TOI of Rs. 40.96 crore.

**Weak debt coverage indicators:** Owing to decline in operating profit, ASL's debt coverage indicators weakened marked by below unity interest coverage of 0.82x during FY20 as against 3.88x during FY19. The company's Total Debt to GCA also stood weak on account of cash loss during FY20.

**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.

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

**Presence in highly fragmented and competitive 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 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 gives it 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:** The company's capital structure continued to remain comfortable marked by a stable overall gearing of 0.81x as on March 31, 2020 (0.81x as on March 31, 2019) as decline in debt level on account of scheduled repayment of term loan offset the deterioration of ASL's tangible network.

#### **Liquidity – Stretched:**

ASL's liquidity remained stretched marked by close to full utilization of working capital limits. Utilization of working capital limits remained high at 95% for the 12 months ended August 2020. ASL reported a cash loss of Rs. 1.33 crores during FY20 as against repayment obligation of Rs. 3-4 crore for FY21. The company is expected to meet its scheduled repayments through receipt of subsidy income of Rs.3.63 crore during FY21 (including Rs.1.52 crore already received till June 2020) as well as internal accruals. Further, the cash and bank balance also remained low at Rs.0.11 crore as on March 31, 2020. However, operating cycle continued to remain moderate at 36 days in FY20 (48 days in FY19). The company has availed the moratorium benefit from March 2020 to August 2020 on its bank facilities.

**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](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology – Cotton Textile Manufacturing](#)

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

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

#### **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 of ASL are tabulated below:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	104.92	111.03
PBILDT	10.31	2.50
PAT	2.24	(5.73)
Overall gearing (times)	0.81	0.81
Interest coverage (times)	3.88	0.82

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-Cash Credit	-	-	-	9.00	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.35	CARE A4
Fund-based - LT-Term Loan	-	-	August 2022	13.87	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-Jul-20)	1)CARE BB+; Stable (07-Nov-19)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	1.35	CARE A4	1)CARE A4 (07-Jul-20)	1)CARE A4+ (07-Nov-19)	-	-
3.	Fund-based - LT-Term Loan	LT	13.87	CARE BB; Stable	1)CARE BB; Stable (07-Jul-20)	1)CARE BB+; Stable (07-Nov-19)	-	-

#### Annexure-3: Complexity level of various instruments rated for this firm

Sr. No.	Name of the instrument	Complexity level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Fund-based - LT-Term Loan	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](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:

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