

## Akshar Spintex Limited

November 07, 2019

### Ratings

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

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Akshar Spintex Limited (ASL) is constrained on account of its fluctuating profitability, moderate debt coverage indicators and stretched liquidity of ASL. The rating is further constrained on account of susceptibility of the profitability to volatile raw-material prices as witnessed during FY19 (refers to the period from April 01 to March 31) and its presence in highly fragmented and competitive cotton industry.

The ratings, however, derives strength from experienced promoters, location advantage and availability of fiscal benefits from the government. The ratings also take the note of growth in scale of operations and comfortable capital structure of ASL.

The ability of ASL to sustain the increase in its scale of operations along with improvement in the overall financial risk profile marked by an improvement in profit margins, solvency position and debt coverage indicators; and efficient working capital management are the key rating sensitivities

#### Rating sensitivities

##### Positive factors

- Sustained growth in the scale of operations along with improved and stable profit margins
- Sustained solvency position marked by below unity gearing ratio
- Improvement in debt coverage parameters marked by interest coverage ratio above 5 times and total debt to GCA ratio of below 5 times.

##### Negative factors

- Stretched liquidity position leading to higher borrowings for working capital and below unity current ratio
- Moderation 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

##### Growth in the scale of operations albeit with fluctuating profitability

Total operating income (TOI) of ASL has witnessed continuous growth in its TOI during the past three years ended March 31, 2019. Although moderated, ASL registered growth of 5.43% during FY19 to Rs.104.92 crore as against Rs.99.53 crore during FY18.

However, the PBILDT margins of the company have remained volatile as evident from PBILDT margin of 9.83% during FY19 as against margins of 14.34% during FY18. Moderation in PBILDT margin is primarily on account of higher raw material costs during FY19. Consequently, the PAT margin of the company declined and stood at 2.14% during FY19 as compared to 8.59% during FY18. Gross cash accruals stood at Rs.7.67 crore in FY19 as against Rs.12.84 crore in FY18 mainly on account of declined PAT level.

##### Moderate debt coverage indicators

Debt coverage indicators of the company deteriorated and stood moderate as marked by total debt to GCA (TDGCA) of 4.30 years in FY19 as against 2.91 years in FY18 and interest coverage of 3.88 times in FY19 as against 5.97 times in FY18 owing to decline in operating profitability.

##### 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 FY19.

#### ***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 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 ups 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 capital structure of the company improved and stood comfortable at overall gearing of 0.81 as on March 31, 2019 times and 1.08 times as on March 31, 2018. Improvement in capital structure was on account of decline in total debt owing to scheduled repayment of term loan coupled with augmentation of networth base.

#### **Liquidity analysis:**

##### ***Stretched liquidity position***

During FY19, operating cycle improved and continued to remain moderate at 48 days as against 53 days in FY18. Further, with increase in the scale of operations, the average working capital limits utilization during past twelve months ended on August 2019 remained high at 90%. Cash flow from operating activity stood at Rs.8.84 crore during FY19 as against Rs.7.41 crore during FY18. The outstanding cash and bank balance of the company stood modest at Rs.0.13 crore as on March 31, 2019.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning outlook to credit ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology - Manufacturing Companies](#)

[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)	FY18 (A)	FY19 (A)
Total operating income	99.53	104.92
PBILDT	14.27	10.31
PAT	8.55	2.24
Overall gearing (times)	1.08	0.81
Interest coverage (times)	5.97	3.88

A: Audited.

As per provisional H1FY20 results (refers to the period from April 01 to September 30), ASL has registered total operating income of Rs.45.20 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	-	-	August 2022	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 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-Long Term	LT	40.80	Suspended	-	-	-	1)Suspended (30-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	6.00	Suspended	-	-	-	1)Suspended (30-Dec-16)
3.	Non-fund-based - ST-Bank Guarantees	ST	1.35	Suspended	-	-	-	1)Suspended (30-Dec-16)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.20	Suspended	-	-	-	1)Suspended (30-Dec-16)
5.	Fund-based - LT-Cash Credit	LT	9.00	CARE BB+; Stable	-	-	-	-
6.	Non-fund-based - ST-Bank Guarantees	ST	1.35	CARE A4+	-	-	-	-
7.	Fund-based - LT-Term Loan	LT	15.45	CARE BB+; Stable	-	-	-	-

**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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